



European Banking Federation



Association for Financial
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European Savings Banks Group



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of Public Banks and Funding Agencies

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INDUSTRY GOOD PRACTICE GUIDELINES ON PILLAR 3 DISCLOSURE REQUIREMENTS FOR SECURITISATION

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INTRODUCTION

Transparency is a key element in building and maintaining market confidence. Therefore the Banking Directive¹, as part of the Capital Requirements Directive (CRD), contains a comprehensive Pillar 3² disclosure framework, which includes securitisation³. The objective of 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 an institution. In particular it provides detailed information on the regulatory assessment of risk.

These Guidelines were developed by a Working Group chaired by Mr. Ralf LEIBER of Deutsche Bank and composed of the European Banking Federation, Association for Financial Markets in Europe (formerly London Investment Banking Association), European Savings Banks Group and the European Association of Public Banks, as well as a number of firms. This version of the Guidelines has been revised to address issues raised as a result of experience in the first year of operation and comments received. They do not yet address the proposed changes to the CRD (CRD 3) that have yet to be finalised, which are based on the revisions to the Basel Accord issued in July 2009.

The objective of the Guidelines is to promote sound, consistent, and appropriately granular implementation of Pillar 3 disclosure requirements for securitisation. Notwithstanding these objectives, relevance and clarity shall also be considered in preparing these disclosures. With this in mind the industry believes that these Guidelines will strengthen bank and investment firm disclosures further and help them to deliver relevant and meaningful disclosures.

These Guidelines are primarily aimed at the banks and investment firms who have to disclose their involvement in securitisation activities according to Pillar 1. However, they may also be of help for users of such Pillar 3 securitisation disclosures.

The Guidelines comprise of three chapters: General Issues, Detailed CRD - Requirements, and Process Issues. They also include a Glossary. The Guidelines are intended, as far as possible, to be principles based. Therefore in each sub-section the respective CRD requirement's objective is explained before the specific implementation guidance is provided and further supplemented with illustrative examples and templates.

¹ Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions.

² The CRD has three Pillars – Pillar 1 sets the minimum capital requirements; Pillar 2 requires a firm to perform its own assessment of risk and capital needs, and includes the provisions for supervisory review; Pillar 3 outlines the disclosure requirements.

³ Annex XII, paragraph 14 of Directive 2006/48/EC. All references to Paragraph 14 in these Guidelines are to this Directive and Annex.

1 GENERAL ISSUES

1.1 Status and implementation of the Guidelines

Firms are strongly encouraged to take thorough account of these Guidelines in the preparation of their disclosures although they are not legally binding.

Where a firm has prepared its disclosures on the basis of these Guidelines this fact should be disclosed. Where a firm materially diverges from the Guidelines, it is recommended that the firm provides an explanation for the different approach to enhance user understanding.

These Guidelines do not override applicable Pillar 1 and Pillar 3 regulatory requirements, but aim to provide guidance where none is available.

This updated version of the Guidelines should be applied for disclosures relating to year-end 2009 onwards and as a result do not reflect the proposed changes to the CRD, which incorporate quantitative disclosures on the trading book.

1.2 Level of application

Pillar 3 securitisation disclosures are only required at the consolidated level of the group. However, where a local regulator has specified particular disclosures at the entity level for that jurisdiction, these Guidelines should be applied where possible.

1.3 Scope of application

The CRD defines the relevant transactions for the Pillar 3 securitisation disclosures as those that fall within Articles 94 to 101 of the Banking Directive, i.e. the securitisation framework within the CRD. The qualitative and quantitative Pillar 3 disclosures address both the exposures securitised as well as any securitisation positions held. In preparing the disclosures firms should make sure that they include sufficient information to convey the actual risk profile of the transactions in question here, which may entail providing additional qualitative or quantitative information beyond that covered in the CRD requirements and these Guidelines.

Quantitative disclosures

Where a firm securitises exposures from its balance sheet these exposures shall be considered for disclosure purposes where the minimum requirements for recognition of significant credit risk transfer have been fulfilled.⁴

This is the case where for the purposes of calculating Pillar 1 capital requirements a significant risk transfer results in de-recognition of the exposure securitised (traditional securitisation) or where a risk transfer is recognised in respect of a synthetic securitisation.

⁴ Article 95 Directive 2006/48/EC in connection with Annex IX, Part 2.

Therefore those transactions that have failed to meet the significant risk transfer requirements would not be within the scope.⁵

Where a firm establishes and manages a securitisation transaction that purchases exposures from third party entities (i. e. sponsoring activities) these exposures shall also be considered in scope.

For securitisation positions retained or purchased, disclosure shall be made for all such positions. Relevant securitisation positions are all retained banking book positions and the counterparty risk on any FX or interest rate swaps to securitisation transactions regardless of whether they are recorded in the banking book or trading book.

Qualitative disclosures

In order to provide users with a comprehensive view on the institution's entire securitisation activity the qualitative disclosures should go beyond the scope of securitised exposures and securitisation positions as defined above for the quantitative disclosures. In particular a firm should also provide 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.

1.4 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.

Further comparative information should be given on the total volume of underlying assets from originating or sponsoring activities within the quantitative part of the disclosures.

Institutions should evaluate whether it would be appropriate to provide more granular detail (e.g. information that might be further broken down).

1.5 Exemptions

In accordance with Article 146 of the Banking Directive, firms may omit one or more of the Pillar 3 securitisation disclosures on the grounds of materiality if these meet the definition in Annex XII, Part 1, Point 1 of the Banking Directive. It defines materiality as information that, if omitted or misstated, could change or influence the assessment or decision of a user relying on that information.

In accordance with Article 146 of the Banking Directive, firms may only omit information otherwise required under Pillar 3 on the grounds of being proprietary or confidential if the information meets the criteria specified in Annex XII, Part 1, points 2 and 3. Information shall

⁵ Where the minimum requirements for recognition of significant credit risk transfer have not been fulfilled the assets underlying such transactions will continue to be disclosed as part of the relevant exposure class concerned.

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

1.6 Location and Medium of disclosures

In accordance with Article 148 of the Banking Directive, firms may determine the location and the medium of the Pillar 1 securitisation disclosure requirements. The location and medium should be consistent with the other Pillar 3 disclosures but need not be disclosed in one location (for example valuation policies may be contained in financial statements but regulatory risk disclosures on a dedicated web page). However, firms should clearly signpost where their disclosures can be found on their website and/or in their annual accounts.

1.7 Frequency of disclosure

In accordance with Article 147 (1) of the Banking Directive, in line with the rest of Pillar 3, securitisation disclosures should be made at least annually. In determining whether disclosures should be made more frequently (Article 147(2) of the Banking Directive) firms should take account of Annex XII, Part 1, Point 4; i.e. consider 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 the Banking Directive 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

This disclosure requirement serves the purpose 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

2.1.1 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, for example:

- the basic business logic, or drivers 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.
- the types of transactions the firm is involved in, giving an indication of which are the most important to the business.
- the value that these activities add to the firm.

2.1.2 Where the business model has materially changed within the reporting period, for example as a result of recent market events, a firm should communicate this accordingly.

2.1.3 All material securitisation activities of the firm should be explained - not just those within the regulatory definition, i.e. within the securitisation framework of the CRD. In addition to the activities that fall under the CRD securitisation framework, a firm should also provide qualitative information on its securitisation related trading book activities and in relation to banking book securitisation transactions that are not within the scope of the CRD securitisation definition (Scope of application, Section 1.3). In addition, firms should disclose the purpose of the activities undertaken during the current year. This should enable a better understanding of the quantitative disclosures provided for the current activities and put them into context to the overall securitisation activities of the firm.

2.1.4 When commenting on the roles that it plays a firm should - for consistency - disclose its originator and sponsor roles in accordance with the definitions of the CRD, as far as possible. For Pillar 1 purposes, the CRD assigns a role for each transaction following a hierarchy of roles. A firm is an originator if it, 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 if it purchases a third party's exposures onto its balance sheet and then securitises them. A firm is defined as sponsor when it is an institution other than an originator that establishes and manages an ABCP programme or other securitisation scheme that purchases exposures from third parties.

However when discussing the roles in the context of Pillar 3 disclosure the following should be considered:

- If the firm is the only originator to a securitisation transaction and at the same time establishes and manages the transaction the firm should also disclose this sponsoring activity in the qualitative disclosure.

Excursus: In the quantitative disclosures for this case the securitised exposures should be disclosed under the originator activity only.

- If a firm establishes and manages a securitisation transaction, i.e. acts as a sponsor, and has provided assets into a multi-seller transaction the firm should provide qualitative information on both the originating and the sponsoring activity.

Excursus: In the quantitative disclosures for this case the assets originated should be disclosed within the originator role and the whole transaction / programme should additionally be disclosed by the firm as a sponsor.

- If a firm establishes and manages a securitisation transaction, i.e. acts as a sponsor, but does not provide any assets into the securitisation the firm provides qualitative information on its sponsoring activity only.

Excursus: In the quantitative disclosures for this case the exposures securitised must be disclosed within the sponsor activity.

Although this guidance represents a divergence from a strict application of the definitions of sponsor and originator as conceived under Pillar 1, it will provide a more meaningful disclosure for users by not overstating the amount of assets a firm has originated in a scheme or understating the amount of own and third party assets sponsored. As this guidance will result in double counting, the amount of assets included in both disclosures should be identified.

2.1.5 Where a firm is neither an originator nor a sponsor then, for Pillar 1 purposes, its activity falls into a third residual category. For example this would be the case if the firm invests

into a securitisation position from a transaction for which the firm is not regarded originator or sponsor. Another example would be where a firm provides a liquidity facility for a transaction without being originator or sponsor. Therefore a firm should consider disclosing the nature of other material roles in order to accurately describe its securitisation activity. Since other roles are not defined by the CRD firms should use common market conventions. Footnote 222 of the Basel Framework⁶, which has not been transposed into the CRD, includes the following additional examples: servicer, provider of credit enhancement, liquidity provider, and swap provider. Another example would be: note holder.⁷

- 2.1.6 When providing information on the extent of its involvement in securitisation, firms should consider whether it is appropriate to include high level quantitative information, or rather provide references to the quantitative information provided in other disclosures.

2.2 Regulatory Capital Calculation Methods Used

CRD Requirements

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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;

Objective

This disclosure aims 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

- 2.2.1 Firms should disclose whether they are using the Standardised (SA) and/or the Internal Ratings Based (IRB) Approach when calculating capital requirements. If they are an IRB firm, they should also outline which of the methods in the hierarchy of approaches (Rating Based Approach, Internal Assessment Approach or Supervisory Formula Approach) they are using and may wish to consider whether it is helpful to users to disclose for what type of transaction exposures the respective approach is used.

⁶ Within these Guidelines the term "Basel Framework" refers to the "International Convergence of Capital Measurement and Capital Standards, A Revised Framework, Comprehensive Version, June 2006".

⁷ In certain European jurisdictions, Pillar 1 and 3 guidance refers to the residual category as "investor" within the relevant national legislations."

- 2.2.2 The firm should outline all methods used to perform the consolidated capital calculation and, if using the IRB approach at group level, the extent of usage of the Standardised Approach.

2.3 Valuation and Accounting Policies

CRD Requirements

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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

This disclosure aims 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

- 2.3.1 A firm should either provide discrete disclosures referring to the accounting treatment for securitisation activities - which includes both traditional and synthetic securitisations - within their Pillar 3 disclosures or provide a reference to where these can be found.
- 2.3.2 A firm should provide explanation of where the accounting and regulatory treatments diverge. For example, transactions may be considered as financings and on-balance sheet positions for accounting purposes, but may be treated as off-balance sheet, or transferred, for regulatory purposes because the de-recognition / transfer requirements are different.
- 2.3.3 A firm should make additional disclosures in relation to the consolidation policies and the types of structures to which they apply, in particular the firm's reasoning for consolidation or non-consolidation of entities should be included.

2.4 Rating Agencies Used

CRD Requirements

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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 External Credit Assessment Institutions (ECAIs) used for securitisations and the types of exposure for which each agency is used;

Objective

This requirement gives users an understanding of the inputs into the capital requirement calculation.

Implementation Guidance

- 2.4.1 Rating agencies specified should be those used for the calculation of capital requirements relating to securitisation positions.
- 2.4.2 Where appropriate, exposure types should be differentiated in accordance with the following categories⁸: 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.

⁸ These categories are from the COREP; for COREP see below 2.5.4. and footnote 8.

QUANTITATIVE DISCLOSURES

2.5 Exposures securitised – by transaction type and exposure type

CRD Requirement

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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;

Objective

This disclosure requirement intends to provide users with an understanding of the importance of securitisation to a firm's banking book business. This disclosure is not about investments but about what has been securitised. Implementation Guidance

- 2.5.1 The scope of originated transactions to be assessed for this disclosure requirement should be those where credit risk transfer with regard to the exposures securitised has been recognised for the purposes of calculating Pillar 1 capital requirements (Scope of Application, see Section 1.3).

Where a securitisation position has not been retained - either in form of a securitisation position in the banking book, or in form of a counterparty risk exposure arising from a derivative related to a securitisation transaction - the disclosure for the exposures securitised in this transaction only needs to be made in the year of inception for the time being⁹.

The total of exposures securitised relating to transactions where no positions have been retained should be separately identified. This guidance represents a purposive interpretation of the CRD requirements based on Footnote 224 of the Basel Accord.

Where the firm acts as a sponsor, the total securitised assets of the vehicle should be included in the disclosure (see 1.3 Scope of disclosure).

- 2.5.2 Disclosures on the outstanding stock of exposures securitised should be provided by the originator and sponsor separately, in line with Footnote 225 of the Basel Framework. Originator and sponsor activities should be determined on the basis of the CRD definitions and the disclosure guidance outlined in 2.1.4. If a firm acts as both originator and sponsor to a securitisation, the own originated assets should be shown in the originator disclosure. In addition the total amount of the underlying assets has to be shown in the sponsor disclosure. The effect of double counting needs to be explained.

⁹Today, firms cannot be expected to provide information on past securitisation positions which they have not retained as there is no reason justifying why they should keep that information in their systems. However, this will change following the introduction of the retention requirement imposed by CRD 2.

2.5.3 Exposure values should be calculated on the basis of financial statement values, gross of the application of provisions, or on the basis of regulatory exposure values according to Pillar 1 after taking account of conversion factors (CCFs) but prior to the application of credit risk mitigation (CRM). Exposure values to be applied are those as of the reporting date. Where this information is not available, either exposure values as of the date of transaction inception or the current amount of notes outstanding should be used. For sponsoring activity where balance sheet and regulatory amounts might not be available, information on outstanding exposures could be derived from publicly available information such as investor reports or own valuations. The basis used for exposure value should be disclosed.

2.5.4 The breakdown by exposure types should follow the categories as identified by CEBS as part of the solvency reporting Guideline (known as COREP)¹⁰. Relevant exposure types that should be used 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 regulatory capital purposes), consumer loans, trade receivables, securitisation (re-securitisation), and other. Where appropriate, the “securitisation (re-securitisation)” category could be further broken down by structured security types like RMBS, CMBS, Auto Loans, CBOs, CLOs and other ABS.

Multi asset transactions should be allocated to an exposure type based on the balance of assets, i.e. the predominant exposure type should be used for the whole transaction. For example, if a transaction had 80 % of its assets falling in the category of residential mortgages, then it should be disclosed as such. Whilst the aforementioned COREP approach is preferable, alternatively, the firm may use a weighted approach and present the percentage distribution of the underlying pool across the various exposure types.

2.5.5 All material categories should be separately identified. For example where the aggregate exposure value for an individual exposure type is, say, 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. Where appropriate to provide an understanding of the risk profile, firms should consider disclosing additional categorisations to those in COREP or further breakdowns of those categories; for example if the residual balance is particularly material.

¹⁰ 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 CRD [<http://www.cebs.org/standards.htm>].

An illustrative example template is provided below:

Total outstanding exposures securitised

| Underlying Portfolio in € mn | Outstanding amounts of exposures securitised | | | |
|--------------------------------------|--|-----------|-------------|-----------|
| | Originator | | Sponsor | |
| | Traditional | Synthetic | Traditional | Synthetic |
| Residential mortgages | | | | |
| Commercial mortgages | | | | |
| Credit card receivables | | | | |
| Leasing | | | | |
| Loans to corporates or SMEs | | | | |
| Consumer loans | | | | |
| Trade receivables | | | | |
| Securitisations / re-securitisations | | | | |
| Other assets | | | | |
| Total | | | | |
| Total (prior year) | | | | |

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

CRD Requirement

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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;

Objective

The aim is to provide insight into the credit quality of the underlying pools of securitisation transactions and give an indication of how well an originator / sponsor has performed, from an investor perspective, in comparison to its peers. Implementation Guidance

- 2.6.1 The scope of originated transactions to be assessed for this disclosure requirement should be those where credit risk transfer with regard to the exposures securitised has been recognised for the purposes of calculating Pillar 1 capital requirements (Scope of Application, see Section 1.3). Where a securitisation position has not been retained - either in form of a securitisation position in the banking book, or in form of a counterparty risk exposure arising from a derivative related to a securitisation transaction - the

disclosure for this transaction only needs to be made in the year of inception. The total of exposures securitised relating to transactions where no positions have been retained should be separately identified. This guidance represents a purposive interpretation of the CRD requirements based on Footnote 224 of the Basel Accord. In addition, where the firm acts as sponsor, the total outstanding exposures securitised by third party entities issuing the securities and other receivables are to be disclosed as well (see 1.3 scope of application).

- 2.6.2 Disclosures of aggregate impaired, past due and loss information should be provided for transactions as originator and sponsor separately. This is in line with Footnote 225 of the Basel Framework. Originator and sponsor categories should be presented based on the CRD definitions and the disclosure guidance outlined in 2.1.4. If a firm acts as both originator and sponsor to a securitisation, the own originated assets should be shown in the originator disclosure. In addition the total amount of the underlying assets has to be shown in the sponsor disclosure. The effect of double counting needs to be explained.
- 2.6.3 Impaired and past due exposures to be included are those which are either impaired or past due but not impaired. They should be determined in relation to a financial statement classification rather than the regulatory designation. Where this information is not available (for example in relation to transactions comprising entirely of third party assets, fair valued assets, non-credit risk related assets or future flow assets) other indications of credit quality should be provided (for example from investor reports) and the nature and source of information provided should be explained.
- 2.6.4 Exposure values should be calculated on the basis of financial statement values, gross of the application of provisions, or on the basis of regulatory exposure values according to Pillar 1 after taking account of conversion factors (CCFs) but prior to the application of credit risk mitigation (CRM). Exposure values to be applied are those as of the reporting date.

Where this information is not available, either exposure values as of the date of transaction inception or the current amount of notes outstanding should be used. The basis used for exposure value should be disclosed.

- 2.6.5 The breakdown by exposure types should follow the categories as identified by CEBS as part of the solvency reporting Guideline (known as COREP). Relevant exposure types that should be used 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 regulatory capital purposes), consumer loans, trade receivables, securitisation (re-securitisation), and other.

Multi asset transactions should be allocated to an exposure type based on the balance of assets, i.e. the predominant exposure type should be used for the whole transaction. For example, if a transaction had 80 % of its assets falling in the category of residential mortgages, then it should be disclosed as such. Whilst the aforementioned COREP

approach is preferable, alternatively, the firm may use a weighted approach and present the percentage distribution of the underlying pool across the various exposure types.

- 2.6.6 All material categories should be separately identified. For example where the aggregate exposure value for an individual exposure type is, say, 10 % or more of the total of all impaired or past due exposure values, this category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided. Where appropriate to provide an understanding of the risk profile, firms should consider disclosing additional categorisations to those in COREP or further breakdowns of those categories; for example if the residual balance is particularly material.
- 2.6.7 Losses should be determined in relation to retained or purchased securitisation positions and according to financial statement categorisation in the current year. The losses should be shown as the impact in the Profit and Loss Account on a net basis; i. e. they are composed of the losses in the underlying pool to the extent that these losses are allocated to the retained or purchased securitisation positions and after taking account of the offsetting effects of any credit protection that is an eligible risk mitigation instrument for the retained or purchased securitisation positions. This applies equally to traditional and synthetic securitisation transactions.

An illustrative example template is provided below:

Impaired or past due assets securitised (according to para 2.6.3)

| Underlying Portfolio in € mn | Impaired or past due assets securitised during the current period | |
|--|--|---------|
| | Originator | Sponsor |
| Residential mortgages | | |
| Commercial mortgages | | |
| Credit card receivables | | |
| Leasing | | |
| Loans to corporates or SMEs | | |
| Consumer loans | | |
| Trade receivables | | |
| Securitisations / re- securitisations | | |
| Other assets | | |
| Total | | |

Losses recognised by the bank from retained or purchased securitisation during the current period (according to para 2.6.7)

| Underlying Portfolio in € mn | Losses recognised by the bank from retained or purchased securitisation during the current period | Losses recognised by the bank from retained or purchased securitisation during the current period |
|--|---|---|
| | Originator | Sponsor |
| Residential mortgages | | |
| Commercial mortgages | | |
| Credit card receivables | | |
| Leasing | | |
| Loans to corporates or SMEs | | |
| Consumer loans | | |
| Trade receivables | | |
| Securitisations / re- securitisations | | |
| Other assets | | |
| Total | | |

2.7 Securitisation Positions, retained or purchased, by exposure type

CRD Requirement

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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

The disclosure requirement intends to give an indication of the dispersion of firm's holdings, thereby providing information on concentrations or likely sectoral risks.

Implementation Guidance

- 2.7.1 This disclosure applies to securitisation positions held in the banking book and the counterparty risk associated with FX and interest rate swap derivatives exposures related to securitisation transactions, wherever booked. Footnote 227 in the Basel Framework provides further insight into what kind of products could fall under this definition. It provides the following non-exhaustive list of examples: securities, liquidity facilities, other commitments and credit enhancements such as I/O strips, cash collateral accounts and other subordinated assets.
- 2.7.2 The amount of securitisation positions retained or purchased should be based on the regulatory exposure values calculated according to the CRD after consideration of credit

conversion factors (CCFs) but prior to the application of CRM, on the securitisation position, i.e. not relating to mitigants that form part of the transaction. The basis of disclosure, with regard to the handling of value adjustments, should be explained.

- 2.7.3 The breakdown by exposure types should follow the categories as identified by CEBS as part of the solvency reporting Guideline (known as COREP). Relevant exposure types that should be used 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 regulatory capital purposes), consumer loans, trade receivables, securitisation (re-securitisation), and other.

Multi asset transactions should be allocated to an exposure type based on the balance of assets, i. e. the predominant exposure type should be used for the whole transaction. For example, if a transaction had 80 % of its assets falling in the category of residential mortgages, then it should be disclosed as such. Whilst the aforementioned COREP approach is preferable, alternatively, the firm may use a weighted approach and present the percentage distribution of the underlying pool across the various exposure types.

- 2.7.4 All material categories should be separately identified. For example where the aggregate exposure value for an individual exposure type is, say, 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. Where appropriate to provide an understanding of the risk profile, firms should consider disclosing additional categorisations to those in COREP or further breakdowns of those categories; for example if the residual balance is particularly material.

- 2.7.5 Comparative information with regard to the prior year should be made available for securitisation positions retained or purchased.

- 2.7.6 As an additional disclosure, in light of recent market events, firms should consider providing a geographic breakdown of its securitisation positions based on the country of domicile of the obligors of the exposures securitised.¹¹

¹¹ Firm may use a weighted approach and present the percentage distribution of the retained or purchased positions across the geographic regions.

Illustrative example templates are provided below:

Aggregate amount of securitisation positions retained or purchased by exposure type

| Underlying portfolio in € mn | Aggregate amount of securitisation positions retained or purchased | |
|--------------------------------------|--|---------------|
| | current year | previous year |
| Residential mortgages | | |
| Commercial mortgages | | |
| Credit card receivables | | |
| Leasing | | |
| Loans to corporates or SMEs | | |
| Consumer loans | | |
| Trade receivables | | |
| Securitisations / re-securitisations | | |
| Other assets | | |
| Total | | |

Aggregate amount of securitisation exposures retained or purchased by geographic region

| Underlying portfolio in € m. | Aggregate amount of securitisation positions retained or purchased | |
|---------------------------------|--|---------------|
| | current year | previous year |
| Europe | | |
| Americas | | |
| Asia / Pacific | | |
| Others | | |
| Total | | |

2.8 Securitisations Positions, retained or purchased, by risk weightings

CRD Requirement

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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

This disclosure requirement aims to assist users in understanding of the credit quality of the firm's exposure to securitisation transactions.

Implementation Guidance

- 2.8.1 In accordance with 2.7.1, this disclosure requirement applies to all *securitisation positions* i. e. both those held in the banking book and counterparty risk on derivatives to securitisations, wherever booked.
- 2.8.2 In accordance with 2.7.2, the amount of securitisation positions retained or purchased should be based on the exposure values calculated according to the CRD after consideration of credit conversion factors (CCFs) but prior to the application of CRM, on the securitisation position, i. e. not relating to mitigants that form part of the transaction.
- 2.8.3 Risk weight bands should be determined by reference to the regulatory capital calculation. For example:
- 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.
- 2.8.4 All material categories should be separately identified. For example where the aggregate exposure value for an individual exposure type is, say, 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. Where appropriate to provide an understanding of the risk profile, firms should consider disclosing additional categorisations to those in COREP or further breakdowns of those categories; for example if the residual balance is particularly material.
- 2.8.5 Comparative information with regard to the prior year should be made available for securitisation positions retained or purchased.
- 2.8.6 In line with the Basel Framework firms should - in addition to the breakdown by risk weight band – disclose the capital charges associated with the securitisation positions. The capital charges should preferably be provided by risk weight bands, otherwise on an aggregated basis.

Furthermore significant movements of retained or purchased positions between the risk weight bands within previous reporting periods should be explained.

An illustrative example template is provided below:

Capital charges for securitisation exposures retained or purchased, broken down into risk weight bands

| Risk Weight Bands | Aggregate amount of securitisation positions retained or purchased | | | | | |
|--------------------|--|---------------|--|---------------|-------------------------------|---------------|
| | Exposure amount | | Capital charges, Standardised Approach | | Capital charges, IRB Approach | |
| | current year | previous year | current year | previous year | current year | previous year |
| in € mn | | | | | | |
| ≤ 10 % | | | | | | |
| > 10 % ≤ 20 % | | | | | | |
| > 20 % ≤ 50 % | | | | | | |
| > 50 % ≤ 100 % | | | | | | |
| > 100 % ≤ 650 % | | | | | | |
| > 650 % < 1250 % | | | | | | |
| 1250 % / Deduction | | | | | | |
| Total | | | | | | |

2.9 Exposure to securitisation of revolving assets

CRD Requirement

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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 investor's interest;*

Objective

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

- 2.9.1 This disclosure is relevant to the firm's role as originator in securitisations of revolving exposures that achieve regulatory de-recognition under Pillar 1.
- 2.9.2 The amounts disclosed are the exposure values for originator's interest and investor's interest, determined in accordance with the CRD, as at the reporting date.

An illustrative example template is provided below:

Exposure to securitisation of revolving assets as at reporting date

| Underlying Portfolio in € mn | Aggregate outstanding amounts | |
|---------------------------------|-------------------------------|---------------------|
| | Originator's interest | Investor's interest |
| Retail committed | | |
| Retail uncommitted | | |
| Non-retail committed | | |
| Non-retail uncommitted | | |
| Total | | |

- 2.9.3 Exposure values should be calculated on the basis of financial statement values, gross of the application of provisions, or on the basis of regulatory exposure values according to Pillar 1 after taking account of conversion factors (CCFs) but prior to the application of credit risk mitigation (CRM). Exposure values to be applied are those as of the reporting date. Where this information is not available, either exposure values as of the date of transaction inception or the current amount of notes outstanding should be used. The basis used for exposure value should be disclosed.

2.10 Securitisation Activity during the Year

CRD Requirement

Annex XII, Part 2, Paragraph 14 of the Banking Directive 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.*

Objective

The disclosure requirement aims to give users an understanding of the trend in usage of securitisation as a risk management or funding tool.

Implementation Guidance

- 2.10.1 The scope of originated transactions to be assessed for this disclosure requirement should be those where credit risk transfer with regard to the exposure securitised has been recognised for the purposes of calculating Pillar 1 capital requirements (Scope of Application, see Section 1.3) and which relate to transactions undertaken in the current

reporting period. The total of exposures of those transactions where no positions have been retained should be separately identified.

Replenishments, extensions or renewals of positions do not form part of this disclosure requirement, as they do not alter the size of the original transaction. Neither do immaterial restructurings of existing securitisations.

Qualitative explanations on the purpose of these activities should be given to provide context to the overall securitisation activities, if not already covered by the disclosures made in accordance with Section 2.1.3.

Where the firm acts as a sponsor, the total securitised assets of the vehicle should be included in the disclosure (see 1.3 Scope of disclosure).

2.10.2 Disclosures should be provided by the originator and sponsor separately, in line with Footnote 225 of the Basel Framework. Originator and sponsor activities should be determined on the basis of the CRD definitions and the according disclosure guidance outlined in 2.1.4. If a firm acts as both originator and sponsor to a securitisation, the own originated assets should be shown in the originator disclosure. In addition the total amount of the underlying assets has to be shown in the sponsor disclosure. The effect of double counting needs to be explained.

2.10.3 Exposure values should be calculated on the basis of financial statement values, gross of the application of provisions, or on the basis of regulatory exposure values according to Pillar 1 after taking account of conversion factors (CCFs) but prior to the application of credit risk mitigation (CRM). Exposure values to be applied are those as of the reporting date.

Where this information is not available, either exposure values as of the date of transaction inception or the current amount of notes outstanding should be used. The basis used for exposure values should be disclosed.

2.10.4 The breakdown by exposure types should follow the categories as identified by CEBS as part of the solvency reporting Guideline (known as COREP). Relevant exposure types that should be used 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 regulatory capital purposes), consumer loans, trade receivables, securitisation (re-securitisation), and other.

Multi asset transactions should be allocated to an exposure type based on the balance of assets, i. e. the predominant exposure type should be used for the whole transaction. For example, if a transaction had 80% of its assets falling in the category of residential mortgages, then it should be disclosed as such. Whilst the aforementioned COREP approach is preferable, alternatively, the firm may use a weighted approach and present the percentage distribution of the underlying pool across the various exposure types.

- 2.10.5 All material categories should be separately identified. For example where the aggregate exposure value for an individual exposure type is, say, 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. Where appropriate to provide an understanding of the risk profile, firms should consider disclosing additional categorisations to those in COREP or further breakdowns of those categories; for example if the residual balance is particularly material.
- 2.10.6 Gains or losses are to be reported for assets derecognised by means of traditional securitisation. The firm should explain whether the calculation of the losses or gains is based on the change in the firm's regulatory own funds or on the impact in the Profit and Loss Account.

An illustrative example template is provided below:

Securitisation activity in the current year

| Underlying portfolio in € mn | Securitisation activity in the current year (exposures securitised) | | | | | |
|--------------------------------------|---|-------------|--|-----------|-------------|--|
| | Originator | | | Sponsor | | |
| | Synthetic | Traditional | Realised gains / losses on traditional securitisations | Synthetic | Traditional | Realised gains / losses on traditional securitisations |
| Residential mortgages | | | | | | |
| Commercial mortgages | | | | | | |
| Credit card receivables | | | | | | |
| Leasing | | | | | | |
| Loans to corporates or SMEs | | | | | | |
| Consumer loans | | | | | | |
| Trade receivables | | | | | | |
| Securitisations / re-securitisations | | | | | | |
| Other assets | | | | | | |
| Total | | | | | | |
| Total (prior year) | | | | | | |

3 PROCESS ISSUES

3.1 Review of the Guidelines

These Guidelines will be next revised when the next revision of the CRD has to be applied (most probably at the beginning of 2011).

3.2 Location of the Guidelines Electronic copies of the latest version of the Guidelines will be located at the following web addresses:

| | |
|---|--|
| European Banking Federation (EBF) | www.fbe.be |
| European Savings Banks Group (ESBG) | www.esbg.eu |
| Association of Financial Markets in Europe (AFME) | www.afme.eu |
| European Association of Public Banks | www.eapb.eu |

GLOSSARY

| Term | Definition |
|--|--|
| Approaches to calculating risk weighted exposure amounts | <p><i>The capital requirements framework for securitisation credit risk exposures has two main approaches:</i></p> <p><i>The Standardised Approach (SA), which is less complex and primarily based on external ratings; and,</i></p> <p><i>The Internal Ratings Based Approach (IRB), which is more complex. Within the IRB there is 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 in ABCP programmes and is based on rating agency methodologies but implemented by the bank or investment firm itself. The SFA is a regulatory specified formula based on five inputs - IRB capital charge on the underlying exposures, as if they had 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).</i></p> |
| Exposures securitised | Refers to a pool of assets which is securitised (also see <i>pool</i>). |
| Investor’s interest | <p><u>Annex IX of Directive 2006/48/EC, Part 4, Sub-section 2.5. (19)</u></p> <p><i>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 the 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.</i></p> |

| | |
|---|--|
| Originator | <p><u>Directive 2006/48/EC, Article 4 (41)</u></p> <p>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</p> <p>b) an entity which purchases a third party's exposures onto its balance sheet and then securitises them.</p> |
| Originator's interest | <p><u>Annex IX of Directive 2006/48/EC, Part 4, Sub-section 3.7. (70)</u></p> <p><i>In relation to a securitisation of revolving assets is the sum of:</i></p> <p>a) The exposure value of that notional Part of a pool of drawn amounts sold into a securitisation, the proportion of which in relation to the amount of the total pool sold into the structure 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</p> <p>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.</p> <p>To qualify as such, the originator's interest may not be subordinate to the investor's interest.</p> |
| Pool (of exposures) | Refers to assets which are securitised (also see <i>exposure securitised</i>). |
| Revolving exposure (Directive 2006/48/EC, Article 100(2)) – Section 2.9 | <p>An exposure whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.</p> <p><i>An example of a revolving exposure would be a credit card.</i></p> |
| RMBS (Residential | RMBS are securities where the primary source of payments is a |

| | |
|-----------------------------|---|
| Mortgage-Backed Securities) | mortgage loan or a pool of mortgage loans secured mostly on residential real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans. |
| Securitisation | <p><u>Directive 2006/48/EC, Article 4 (36)</u></p> <p>A transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranching, having the following characteristics:</p> <p>a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and</p> <p>the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.</p> |
| Securitisation framework | Articles 94 to 101 and Annex IX of Directive 2006/48/EC. |
| Securitisation position | <p><u>Directive 2006/48/EC, Article 4 (40)</u></p> <p>An exposure to a securitisation.</p> |
| Sponsor | <p><u>Directive 2006/48/EC, Article 4 (42)</u></p> <p>A credit institution other than an originator credit institution that establishes and manages an ABCP-programme or other securitisation scheme that purchases exposures from third party entities.</p> |
| Synthetic securitisation | <p><u>Directive 2006/48/EC, Article 4 (38)</u></p> <p>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 originator credit institution.</p> |
| Traditional securitisation | <p><u>Directive 2006/48/EC, Article 4 (37)</u></p> <p>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.</p> |

| | |
|---------|--|
| | |
| Tranche | <p><u>Directive 2006/48/EC, Article 4 (39)</u></p> <p>A contractually established segment of the credit risk associated with an exposure or number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.</p> |