



2 July 2008

Ten Industry Initiatives to Increase Transparency in the Securitisation Market Executive Summary

Introduction

Further to their 8 February 2008 letter to the European Commission committing to deliver on a number of initiatives to improve transparency in the European securitisation markets, the nine European and global trade associations listed above today released *Ten Industry Initiatives to Increase Transparency in the European Securitisation Markets*, in response to the European Council of Finance Ministers' (ECOFIN) call, in their 4 October 2007 Roadmap, to "enhance transparency for investor, markets and regulators" by "mid-2008".

A summary of the ten initiatives is provided below and the documentation relating to such initiatives is available on the associations' websites. The full list of documents available is attached in Annex.

The first two initiatives are in direct response to the transparency section of the ECOFIN October 2007 roadmap requiring the industry (1) to examine whether the public disclosure by banks of securitisation exposures under the CRD Pillar 3 regime is sufficient; and (2) to improve policy makers' ability to monitor the securitisation market and to better assess trends by organising comprehensive, frequent and relevant statistical data.

However, the industry has gone beyond the ECOFIN transparency agenda, with eight additional issuer and investor-focused initiatives designed to standardise issuer disclosure practices; facilitate and broaden investor access to transaction information; enhance usability and comparability of information; and strengthen investor good practice.

These initiatives are consistent with and expected to address some of the issues identified both in:

- The April 2008 Financial Stability Forum Report on Enhancing Market and Institutional Resilience. In particular, Section III recommends improved risk disclosures by issuers, and states that 'originators, arrangers, distributors, managers and CRAs have strong incentives to work together to develop improved initial and ongoing transparency in securitisation processes and related markets', and
- The May 2008 Report of the IOSCO Task Force on the Subprime Crisis, and in particular IOSCO's proposed initiatives in the area of issuer transparency and investor due diligence.

While all of the trade associations participating in the work are committed to improving transparency and disclosure, and have actively coordinated their efforts, they have separate memberships with differing expertise. Hence, different associations have been leading on specific initiatives (as indicated below) and will thus take separate responsibility for the implementation of their respective initiatives.

Finally, the ESF is working together with the American Securitization Forum (ASF) and SIFMA on two global initiatives that are intended to complement the ten initiatives, namely:

- A report on securitisation and structured credit markets including recommendations to rebuild investor and broader public confidence in these markets. The report will serve as a basis to develop and promote the adoption of guiding principles for appropriate market standards and industry good practice in key areas. The report is expected to be released during the summer.
- Recommendations on credit rating agencies and structured finance ratings, designed to address the decline in investor confidence and enhance the ability of market participants to understand credit ratings in the context of their own independent credit assessment. This work is also expected to be completed during the summer.

Summary of the Ten Industry Initiatives Increase Transparency

Transparency Initiatives in response to October 2007 ECOFIN

1: Increasing Transparency in the Reporting of Securitisation Exposures under the Capital Requirements Directive Pillar 3 (Association leads: EBF, LIBA, ESG, EACB, EAPB)

The objective of this initiative is to promote sound, consistent and appropriately granular implementation of the securitisation related CRD disclosure requirements.

The associations completed (1) a survey of investors on possible additional disclosure information that short-term providers of liquidity would have found helpful to obtain in mid to late 2007; and (2) a comparative survey of Pillar 3 implementation.

On the basis of the results of the above work, and taking account of subsequent international developments (e.g. FSF and CEBS recommendations), the associations developed draft Industry Good Practice Guidelines for Pillar 3 disclosures by banks. The guidelines are being issued for stakeholder consultation from 30 June to 15 September 2008 and will be finalised by 31 October 2008. Firms will be able to use them in developing their first Pillar 3 disclosures in early 2009.

2: Organise Comprehensive, Frequent and Relevant Statistical Data: New Securitisation Data Report (Association leads: ESF, SIFMA, CMSA, ICMA)

In order to provide further transparency to market participants and assist policymakers in their monitoring and assessing of trends in the securitisation market, the associations have developed a new Securitisation Data Report for the quarter ending on 31 March 2008. This Report is the first publicly-available report that consolidates relevant aggregated European and US data about the securitisation markets. It will be produced each quarter thereafter, with monthly supplements on spread and price data.

The report contains the following statistical data relating to the European and US securitisation markets:

Term securitisation (ABS, CMBS, RMBS, CDOs)

1. Issuance activity (by country of collateral, type of collateral and rating);
2. Securitisation issuance by deal size;
3. Balances outstanding (as above for issuance);
4. Rating changes by country of collateral and collateral type;
5. Credit spread changes;
6. Changes in credit prices;
7. Indices data;
8. Primary distribution pattern by investor type and investor location.

Asset-backed commercial paper (ABCP)

1. Historical Issuance;
2. Issuance by issuer nationality and by programme type;
3. Volumes outstanding by issuer nationality and by programme type;
4. Spread changes;
5. Primary distribution pattern by investor type and investor location.

In addition

1. Global comparative issuance data;
2. Securitisation market highlights and commentary;
3. Methodological summary for the statistical data presented.

Additional Issuer And Investor Transparency Initiatives

3: ABCP Issuer Disclosure Code of Conduct/Principles (Association Leads: ICMA, ESF)

Following a survey of ABCP market activity, investor feedback, and a review of the legal obstacles to disclosure in the ABCP market, the associations have finalised, following consultation with industry, an ABCP issuer disclosure code of conduct to encourage consistent, relevant and regular reporting to investors in the ABCP market.

4: Term Securitisation Issuer Transparency and Disclosure Principles (Association leads: ESF, SIFMA, CMSA)

The associations consulted with a group of securitisation investors as to steps that would help improve transparency and information flow in RMBS and ABS markets. In response, the associations are developing asset-specific recommendations for transparency and reporting by issuers, tailored to the needs of separate RMBS, CMBS, CDO, consumer ABS, insurance securitisation and other asset classes. Drafts of 'Issuer Transparency and Disclosure Principles' for RMBS and CMBS are being developed first, with the other asset classes to follow. The associations expect to issue the principles for RMBS and CMBS by the end of 2008, and for the other asset classes soon thereafter.

5: Opening Access to Transaction Information (Association leads: ESF, SIFMA, CMSA)

The associations believe that on EEA-listed public term transactions upfront and ongoing information should be openly accessible, whether through the use of websites managed by parties to a transaction or through the services of commercial data providers. In some cases, the websites used for this purpose utilise passwords to monitor access. If the website provider wishes to retain the password restriction on widely marketed transactions, issuers will be encouraged to either i) make sure that the pertinent information is also available from an unrestricted source or ii) 'comply or explain' by including an explanation in the relevant prospectus as to the rationale for retaining password restrictions, and not making the information publicly available through other means. This issue, which applies to RMBS, CDOs, ABS and CMBS, will be addressed in the Issuer Transparency and Disclosure Principles above.

6: Development of Industry Data Portals (Association leads: ESF, SIFMA, CMSA)

The initiatives described above to improve access to EEA issuers and other websites will make prospectuses and investor reports available to a broader category of investors, thereby increasing transparency, and enabling a greater level of analysis and facilitating comparisons of transaction performance. It is expected that the competitive environment for the provision of data will drive data vendors to develop 'data portals' whereby such information can be centrally accessed through those sites at low or no cost. In June, two commercial data providers launched such portals, providing open access to over 1,000 EEA-listed securitisation prospectuses and investor reports. The associations are encouraging additional data providers to consider similar initiatives.

7: RMBS and CDO Issuer/Manager Directories on ESF Website (Association lead: ESF)

As a first step in helping to make information more broadly available and more easily accessible, the ESF now provides on its website a centralised directory of known European RMBS issuer and CDO manager links to various portal, issuer/manager, trustee or management company, stock exchange and data provider websites.

8: Improve Standardisation and Digitisation of Reporting Templates and Granularity of Information (Associations Lead: ESF, SIFMA, CMSA)

Investors need information in an easily usable format and at a relevant level of granularity. Since at the present time there is a variety of legal considerations relating to securitisation disclosure, as well as

differences in business practices across the EU, the associations prepared three surveys describing the current legal infrastructure around disclosure, current business practices for term securitisation, an asset-specific review for the credit card ABS sector, and an analysis of the legal issues for term securitisation disclosure in the EU. In the US, the American Securitization Forum (ASF) is working with its issuer, investor and credit rating agency members to develop standardised issuance and surveillance formats for US non-agency RMBS that will incorporate existing data requirements as well as a substantial increase in new loan-level data fields. Rather than issuers of US RMBS delivering similar data in different formats to the credit rating agencies and investors, issuers will be encouraged to deliver data in a more standardised format to each rating agency. The ESF will explore a similar project for European RMBS transactions by updating the existing ESF Securitisation Market Practice Guidelines. This effort will likely focus on either developing country-specific reports, or eventually a single pan-European format to the extent that differences in national regulatory reporting formats can be overcome. In respect of CMBS, CMSA has also developed and continues to refine a standardised reporting format for CMBS transactions. In addition, the associations are actively discussing further enhancements to transparency via greater digitisation of reporting formats and the inclusion of loan-by-loan reporting to increase the granularity of information provided to investors. Any such practices will need to be considered carefully to ensure that the data provided to investors would not result in a breach of relevant data protection or bank secrecy laws. It will need to also take account of existing country-specific reporting formats, such as those utilised for the German True Sale Initiative (TSI) by certain sellers. The US ASF reporting formats are expected to be finalised in 2008 and implemented in 2009. European implementation will be coordinated with US implementation.

9: Standardising Definitions (Associations Lead: ESF, SIFMA, CMSA)

In a global marketplace, investors and other market participants need consistency in the definitions of various products. For example, 'subprime RMBS' and 'non-conforming RMBS' have a different meaning in the US, UK and other countries. The associations prepared questionnaires (for RMBS and CMBS structures) regarding the use of definitions in RMBS and CMBS structures globally. Part of the challenge for non-conforming and subprime RMBS in Europe is that standardised consumer credit scores are not publicly available, as are FICO scores in the US. In the US, FICO scores are a determining factor as to what is categorised as prime vs. subprime RMBS. As a result, and until a publicly-usable consumer credit scoring framework is developed in Europe, the associations drafted a comparative table as to the meanings of 'non-conforming RMBS' and 'subprime RMBS,' which is included in the RMBS questionnaire. The CMBS questionnaire has already been circulated. The RMBS questionnaire will be launched in the near future. ESF and SIFMA are interested in coordinating their RMBS and ABS efforts in this area with the Expert Group on Credit Histories recently established by the European Commission. Timing will depend on the progress of this group.

10: Developing Investor Credit Assessment and Valuations Principles (Association leads: ESF, SIFMA, CMSA)

In addition to initiatives to improve data provided to investors, it is important that institutional investors categorised as professional to participate in this market, have the internal processes in place to be able to analyse, assess, value and compare securitisation investments, since in the past some investors may have placed too heavy reliance upon the credit rating agencies. In the first instance, the associations are in the process of developing securitisation investor credit assessment principles to ensure investors have well articulated investment processes in place to independently assess the credit of a transaction. In addition, the associations are discussing securitisation investor valuation principles, in particular for structured credit investors who are subject to mark to market rules. Draft principles are expected to be circulated in the summer of 2008, with implementation targeted for year end 2008 or shortly thereafter.

ANNEX

DOCUMENTS AVAILABLE FROM THE ASSOCIATIONS' WEBSITES

1. **Press release**
2. **Executive Summary of the Ten Industry Initiatives to Improve Transparency in the Securitisation Market (dated 2 July 2008)**
3. **Documents relating to the initiative on Increasing Transparency in the Reporting of Securitisation Exposures under the Capital Requirements Directive Pillar 3** (Association leads: EBF, LIBA, ESBG, EACB, EAPB)
 - a. Letter to EU Commissioner McCreevy dated 30 June 2008
 - b. Industry Consultation Paper on Industry Good Practice Guidelines on Pillar 3 Disclosure Requirements for Securitisation dated 30 June 2008
 - c. Pillar 3 Disclosure Questionnaire and Survey Results
 - d. Comparative analysis of the Transposition of CRD Pillar 3 Requirements in the Area of Securitisation
4. **Documents relating to the initiative on Increasing Transparency in Securitization Market Activity - New Securitisation Data Report** (Association leads: ESF, CMSA, ICMA, SIFMA,)
 - a. Letter to EU Commissioner McCreevy dated 25 June 2008
 - b. ESF Securitisation Data Report – Q1:2008
5. **Documents relating to Issuer and Investor Transparency Initiatives**
(in addition to the Letter to EU Commissioner McCreevy dated 25 June 2008)
 - a. Code of Conduct on Disclosure in the ABCP Market, Final Version June 2008 (Association Leads: ICMA, ESF)
 - b. Legal Considerations on Disclosure in ABCP Transactions, by Mayer Brown International LLP (draft June, 2008)
 - c. Review of the EU ABCP Market, Structures, Reporting Practices and Investor Considerations
 - d. Recommendations of Investor Working Group on Pre- and Post-Issuance Disclosure for EU RMBS and ABS (Draft 8 June, 2008)
 - e. Progress Report on Term RMBS and ABS Issuer/Manager Disclosure and Transparency Principles (Draft June 2008) (Association Lead: ESF, SIFMA)
 - f. Progress Report on CMBS Issuer Disclosure and Transparency Principles (Association Lead: CMSA)
 - g. Directory of Links to EU RMBS Issuer Websites (Association lead: ESF)
 - h. Directory of Links to EU CDO Collateral Manager Websites (Association lead: ESF)
 - i. Legal Survey of Term Securitisation Public Disclosure Practices for Various Asset Classes in Europe, by Clifford Chance (June 2008)
 - j. Term Securitisation Disclosure Practices - Business Survey Snapshot of Public Reporting and Credit Disclosure in EU Structured Finance, By Deutsche Bank (Draft June 2008)
 - k. Term Credit Card Disclosure Practices - Business Survey of Reporting Standards in EU Credit Card ABS Transactions, by RBS (June 2008)
 - l. Term Securitisation Summary of Legal Considerations on Disclosure, by Allen & Overy (Preliminary draft June 2008)
 - m. Questionnaire for Development of Standardised Definitions for RMBS (Association lead: ESF)
 - n. Questionnaires for Development of Standardised Definitions for CMBS (Association leads: CMSA, ESF)
 - o. Progress Report on Investment Industry Principles for Structured Credit Assessment and Credit Valuations
2. **Summary of European Industry Commitments to the European Commission Regarding Transparency in the European securitization Market (letter dated 8 February, 2008)**