



## Japan Securities Dealers Association

JSDA

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

RE: Comments and Responses on the Consultative Questions in the Basel Committee on Banking Supervision's Consultative Document "Capital treatment for 'simple, transparent and comparable' securitizations (Published on November 10, 2015)"

Dear Sir/Madam:

The Japan Securities Dealers Association (JSDA)<sup>1</sup> appreciates the opportunity to submit comments and responses on the consultative questions in the Consultative Questions in the Basel Committee on Banking Supervision (BCBS)'s Consultative Document "Capital treatment for 'simple, transparent and comparable' securitizations" published on November 10, 2015.

The following comments and responses were made by JSDA members who are active participants in the Japanese securitization market. To maintain the purport of each member's comments and responses, we are reporting their actual comments and responses directly, as follows:

Answer to Q1

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<sup>1</sup> Japan Securities Dealers Association (JSDA) is a self-regulatory organization (SRO) as well as an interlocutor for the securities industry. Its legal status is a Financial Instruments Firms Association authorized by the Prime Minister pursuant to Article 67-2, Paragraph 2 of the Financial Instruments and Exchange Act (FIEA). JSDA comprises 468 members consisting of securities firms and other financial institutions operating securities businesses in Japan.

We<sup>2</sup> agree with the proposed rationale for introducing STC criteria into the Basel capital framework.

#### Answers to Q2

We understand that authorities should avoid making vague criteria that can be interpreted as having different meanings. However, the STC criteria should not be exactly the same with regard to the details among all countries and regions, given that the underlying assets have been originated for a long time in each domestic market. The number of criteria necessary for specifying the STC products should be a minimum and the criteria should be high-level and the details should be left to the discretion of each authority, depending on the differences in each jurisdiction's securitization market.

#### Comment to criterion A1

Additional guidance for capital purposes should be treated on a discretionary basis by each country's authority, depending on its financial environment in the jurisdiction. For example, "level monthly payments" should be defined in a manner adjusted to each country's market. With respect to residential mortgage loans, there are various "level monthly payments" in Japan. Both level monthly payments of principal plus interest and level monthly payments of principal are categorized within "level monthly payments." Level monthly payments of floating rate loans can be changed if lenders change interest rate and recalculate monthly payments so that each loan can be paid by the final maturity. There are loans that provide payment reduction options through certain periods of times in order to adjust payments for borrower's life cycle. All of them are "level monthly payments" even if there are small differences. Details of "level monthly payments" should be defined by each country's authority. Balloon payment auto loans can be involved in homogenous pools. If pledged assets can be sold in secondary markets or easily refinanced, there is little difference between balloon payment loans and fully amortization loans. A rating agency actually wrote, in their report of a certain deal, that they can't find any difference about default ratio between payment at regular payment dates and payment at maturity dates of balloon payment loans. Balloon payment loans should be equally treated as "level monthly payments" in the countries where used car sales markets and auto loan refinancing markets are matured. Of course, value of pledged assets at loan maturity dates should be considered but that point is reflected in the level of credit

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<sup>2</sup> Please note the subject pronouns "we," "our," and "us" do not represent the JSDA but an individual member firm of the JSDA.

enhancement. Therefore, we don't think balloon payment loans lose "homogeneity" of auto loan ABS.

#### Comment to criterion A5

Synthetic securitizations should be treated on a discretionary basis by each country's authority, depending on its financial environment in the jurisdiction.

For example, in Japan, Japan Finance Corporation (JFC), which is a government-affiliated financial institution, organizes the synthetic securitizations for revitalizing sustainable securitization markets. Those underlying assets are homogeneous and primary small and medium enterprise (SME) loans originated to revitalize the local economy pursuing Japanese national policy. Those SME loans have level monthly payments that fully amortize the amount financed over its original term and may not be actively selected, actively managed, or cherry-picked on a discretionary basis.

Surely the securitizations don't meet the criterion of true sale, but investors are able to assess the credit risk of all underlying assets prior to their investment decisions.

Furthermore, both JFC and regional financial institutions, screening in cooperation, retain material net economic exposures and have financial incentives in the performance of these assets following their securitization.

Hence, despite synthetic securitized products having almost identical risk attributes, they fall at a disadvantage under criterion A5 compared to true sale securitizations. As a result, such a restraint may potentially discourage originators from actively issuing synthetic securitized products giving rise to concerns for market contraction and in turn negatively affecting incentives to develop new products.

#### Comment to criterion D17

In a jurisdiction where it is common practice to employ a third party servicer for securitisation transactions not limited to residential mortgages, those transactions should be considered to be STC securitisations regardless of whether or not such servicer is widely recognized in the industry.

For example, in Japan, it is common practice to entrust primary screening, guarantee, and collection services to a guarantee company in auto loan markets. This provides the same effect as servicing by an originator, because a party who retains risk of underlying assets has an incentive to ensure that the securitization performs as expected.

The discretion of supervisory authorities should be allowed, depending on such a financial environment in each jurisdiction.

#### Answer to Q3

We have doubts on the effectiveness of a framework in which the securitizing parties (originator and/or sponsor) to STC securitizations are subject to oversight by a single regulatory authority.

For example, under the regulatory system in Japan, the BCBS capital framework is under the Financial Services Agency's supervision, while not all originator/sponsors are necessarily under its supervision. Non-banks are supervised by the Ministry of Economy, Trade and Industry (METI), real estate companies by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), hospitals by the Ministry of Health, Labor and Welfare (MHLW), the Japan Housing Finance Agency by MLIT and the Ministry of Finance (MOF).

It should be better that multiple authorities jointly oversee the securitization market in jurisdictions as above.

#### Comment to Q4

The risk weight floor for an STC securitization should be set to 7%, which is equal to that for the senior tranche with the highest rating under the current rating-based approach (RBA). The risk weight floor for complex securitizations is scheduled to be raised for the reason that the current floor of 7% applied under the RBA is overly low. However, most securitizations in Japan have not experienced a rating downgrade so far, except for some complex ones. We believe that the current risk weight floor of 7% for those securitizations needs not to be raised.

#### Other comments

Similar to our comment on criterion A5, in order to facilitate a sustainable securitization market, it is important to gauge whether the framework is compatible and effective for each type of scheme employed in the market.

Based on our interpretation, criterion A5 uniformly excludes synthetic CLOs from the framework. Rather than a blanket exclusion of specific products, the STC criteria should take into consideration whether or not such restraints are appropriate, by scrutinizing each type of scheme. Apart from synthetic CLOs, there are other securitized products eligible for inclusion in the STC criteria such as repackaged securities (senior tranche only) and CMBS among other instruments redeemable using interim cash flow with no associated refinancing risk.

It is the JSDA's hope that our members' comments described above will prove useful to the process of producing the Basel committee's final report. Please feel free to contact us should you encounter anything unclear in the comments.

Sincerely yours,

A handwritten signature in black ink, appearing to read '2.17 Kimiaki Yamauchi'.

Kimiaki Yamauchi

Director

Chief Officer for Rules and Regulations

Japan Securities Dealers Association