

Minutes of the Seventh Meeting of the Working Group on Distributions of Securitized Products

1. Date

June 24, 2008 (Tuesday) 15:00 to 17:00

2. Place

JSDA Conference Room

3. Participants

As stated in Appendix 1

4. Agenda

- Finalizing interim report

5. Summary of Proceedings

At the start of the meeting on the interim report, a representative of the FSA gave the following explanation of the proposed revisions to portions of its comprehensive Supervision Guidelines for major banks, etc. regarding (III-2-3-3-2 (3) Risk Management of Credit Investments using Securitized Products, etc.) that is currently being circulated for public comment.

- The proposed revisions to portions of the Supervision Guidelines (regarding Risk Management of Credit Investments on Securitized Products, etc.) reflect cautionary points for risk management by financial services institutions, generally based on a report by the Financial Stability Forum, amongst others. Such report asked that measures be implemented promptly, starting with those possible immediately, and it also required reports on progress for priority items to be implemented within 100 days of the issue of the Financial Stability Forum report at the G-8 Finance Ministers' Summit held this month. It also highlighted that these were the circumstances under which the current request for public comments on the proposed revisions was made.
- The FSA representative stated that, up to this point, he did not see any major differences between the contents of the proposed revisions and the direction of the discussions in this WG. However, once the WG discussions were firmed up and made ready for public announcement, the sections of the FSA responsible for the proposed revisions would work within the Agency to align the content.

1. Explanation of the finalized IRP proposal by CMSA

The Japan office of the CMSA reported about the final proposal of IRP for the Japanese market using the document included as Appendix 4.

- The proposal being presented at the meeting had been slightly revised from the one submitted at the previous meeting.
- In the document, Section "A" indicates the bond level (including bonds and *Tokutei Mokuteki Kaisha* (TMK) bonds as CMBS, trust beneficial interests etc.), Section "B" the underlying asset level (including loans, TMK bonds as underlying assets etc.), and Section "C" the property level. When TMKs are used as the issuers of CMBS, distinctions are not made between A and B levels, with the TMK bonds having the characteristics of both bonds and underlying assets, therefore they be adjusted in accordance with the structure.

- Furthermore, disclosure timing is separated into “At issuance,” “During term,” and “At issuance and during term.”
- Information items are divided into 3 “Levels”. As also indicated by the Unified Information Disclosure Format Initiative Team, for RMBS, CLO, and ABS, at “Level 1” most of the items are considered sub-essential (not absolutely essential), while “Level 2” includes information that is useful and made available frequently. “Level 3” contains useful information but with lower priority than those of “Level 2.” Certificate numbers and other information specifying bonds or notes are indicated as “N.”
- The “explanation” column shows the definition of each information item. Since these are defined with typical Japanese products in mind, not all products may fit the definition.
- 4 points outlined below represent internal opinions of CMSA on the overall IRP.
 - (1) These materials are the result of study on information items, not an exploration of a standard format (style, writing form, structure). While servicers and arrangers see no “particular problem” in integrating the format, some trust banks insist that they have “no plan” to do so. Hence, within CMSA, opinions are divided over the possibility and propriety of format standardization. Aside from the debate over format integration, further discussions are called for on issues such as whether this proposed IRP could be used in “CMBS deals where Japan’s commercial banks, who currently play various roles of investor, originator and servicer, are involved as originator and servicer”, since such instances may increase going forward.
 - (2) For disclosure and reporting, respective drafters (initial acquirer of information) assume the responsibility. Even if the trustee has a responsibility to circulate the report, it is not responsible for double-checking the content of the disclosed materials or reports. (The CSMA wanted the supervisory authorities to confirm this point.)
 - (3) Even though the producer of disclosure materials or reports has primary responsibility for disclosure and reporting, the entity is not responsible for checking the accuracy and other aspects of the underlying materials, such as materials submitted by asset managers. Scope of responsibility for disclosure and reporting will be clarified, including the source of information.
 - (4) The item list is designed for typical securitized products in the current Japanese market, but since actual securitized products differ individually, it is not advisable to use the list across the board. Even if an information item is not included in the CSMA’s list it does not mean that it is unnecessary. Similarly, CMSA prepared the list under an assumption that even if an item was included in the list, it might be unnecessary in respect of the special nature of the product.
- The CSMA also introduced the following points on which their “Investor WG” and “Lenders & Arrangers and Servicers WGs” had not reached agreement at this stage.
 - (1) Views and opinions on details about performance, sales, and other information of the property
(Investors WG)
The same level of detail should be disclosed for all properties.
 - (Lenders & Arrangers and Servicers WGs)
When one product has more than 20 properties as collaterals, those with over 5% concentration shall be considered as key properties and their additional information, such as performance, appraisal reports, have to be disclosed. Since the importance of properties are assessed differently for each deal, the figures, 20 properties and 5%, serve as mere guidelines.
 - (2) Notes on information other than standard items
(Investors WG)

Regarding information not included in the disclosure items of the standard format, if necessities arise, information similar to that shown in Attachment 1 shall be disclosed accordingly.

(Lenders & Arrangers and Servicers WGs)

For information not included in the disclosure items of the standard format, necessary information in accordance with the special features of the product shall be disclosed accordingly. For major properties (See mention above), it is desirable to disclose the assessment report, engineering report, rent roll, and operating statements (OS) at the time of issue. For this additional information, the 1) content of disclosable information other than that of the standard format, 2) whether distributions to all members are based on invoices or not (if the latter, include invoicing method), and (3) whether said information has been updated during the period should be made clear at the time of CMBS issue.

(3) Opinion on disclosing AM/PM names during the life of the product

(Investors WG)

Since AM/PM may change during the term of the product, it is desirable to have AM/PM names listed every time (would be convenient to create a list because this way, the latest report alone should suffice).

(Lenders & Arrangers and Servicers WGs)

Would like to only have to report changes in AM/PM names when reports of the change are made to the servicer.

(4) Opinion on disclosing N figures

(Investors WG)

Would like to see the N figures disclosed. It should be sufficient to disclose them in two ways, the regular calculation and the simplified method.

(Lenders & Arrangers and Servicers WGs)

Investors do not necessarily use the same calculation method, therefore, materials provided should be limited to those required for the calculation.

(5) Opinion on reflecting the redemption of CMBS in the price of properties

(Investors WG)

Would like to know correlation between the sales of individual properties and redemptions of CMBS.

(Lenders & Arrangers and Servicers WGs)

Since products are structured so that property sales are done by the servicer and CMBS redemptions are done by the trustee, it is impossible to get a complete picture. It is possible to check whether or not a sales of properties during a certain period has been reflected in the redemption of CMBS.

The WG Chair commented that “there was a possibility that CMBS with Japanese commercial banks as originators and servicers would increase in future. Therefore, he would like to hold a hearing with commercial banks to determine whether in such a case this IRP proposal could be used.”

The WG Chair continued on to say that the CMSA previously gave an explanation to the effect that trust banks could not double-check the information provided by servicers. He wondered what the background to this information was. He mentioned that in this meeting there is no representative of trust banks who participated in the discussion in CMSA’s standardization subcommittee, but urged members to give any thoughts. In addition, he urged servicers to present their thoughts. In response to these questions, WG members and observers made the following comments.

- Since I do not participate in the CMSA meetings, I can only conjecture what they might have been thinking when making this statement, but in general trust banks run checks on

information which is clearly suspicious, as part of their obligation to perform due diligence. However, unlike the police, they do not have the authority to investigate. Also, what they probably meant was that making large expenditures to check the accuracy of all the information received from servicers and others would not fall within the realm of practicality or their compensation for trust services.

- As a servicer, I do take responsibility for providing trust banks with accurate information on the collection of principal and interest at the loan level.

The WG Chair said that he would like to pursue further the issue of information accuracy come the fall.

The WG Chair asked what the representatives of the CSMA thought of the usefulness of the appraisal report in producing the IRP given that information on properties would be based on the appraisal report or the engineering report. A representative of the Japan office of the CSMA responded as follows.

- In fact, we thought the appraisal report was the main instrument of disclosure for many arrangers. On the other hand, we also thought that for multi-property deals, disclosing appraisal reports on all properties would be expensive and not as effective.
- The appraisal report standardized in July 2007 may not be suitable for all properties.

The WG Chair commented that they would like to discuss a compilation of the CSMA's opinions in the WG from the fall in an effort to form a consensus.

A WG member requested to include in the interim report the WG Chair's previous comment on holding a hearing with commercial banks regarding the possibility of using the proposed IRP for Japanese commercial banks that acted as originators and servicers of CMBS deals. The WG Chair agreed to this request.

2. Discussion of the interim report (this document)

The WG Chair went over the outline of the interim report.

Discussions followed, after which the overall interim report was unanimously agreed. The WG Chair and Deputy Chairs were assigned with the responsibility to modify the interim report for areas pointed out in today's discussions.

The WG Chair stated that, following the presentation of the interim report to the Self-Regulation Board in July, they planned to make the report public promptly.

(End of document)