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Basel Committee on Banking Supervision
Bank for International Settlements
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Dear *Governor Wellink*

BCBS 150 - Proposed enhancement to the Basel II framework

The International Banking Federation (IBFed), The International Swaps and Derivatives Association (ISDA), the London Investment Banking Association (LIBA), and the European Securitisation Forum (ESF), an affiliate of the Securities Industry Financial Markets Association (SIFMA), are pleased to respond to the Basel Committee on Banking Supervision's (BCBS) CP 150 '*Proposed enhancements to the Basel II framework*'.

We reiterate our belief that the Basel II capital framework, once implemented, is the appropriate global framework for capturing and assessing risk. It provides the right incentives for firms to improve not just their risk management procedures and disclosure, but also their governance and systems and controls infrastructure to promote a better understanding of firm-wide risks and risk management.

We have responded to the proposed enhancements in each of the three pillars separately, with each module being a stand-alone document delivering its own set of key messages and analysis.

Overarching key messages

However in this letter we identify a number of those messages to which we would like to draw to the Committee's attention. These are:

Pillar 1

Impact on the broader economy

It is important to the economy that viable investments in “broader economy” securitisations (i.e. securitisation transactions where funding is directly provided to global businesses or consumers) be encouraged, not discouraged. In Europe, over 90% of securitisations are “broader economy” securitisations, with over EUR 800 billion of funding provided in 2006 and 2007. Most EU ABCP conduits fund broader economy assets, not CDO products.

Re-securitisation definition

We agree that recent events have shown up the deficiencies in the ratings of some structured transactions, such as CDO of ABS or CDO², where double or higher leverage is introduced through multiple tranching sequences that significantly increase the correlation and default risk and where credit analysis of the resulting securitisation position is based on the package of pooled securitisation risk rather than exposure by exposure analysis. We therefore concur that it is appropriate to revisit the capital requirements in this area, and the due diligence requirements more generally. However, the proposed definition of re-securitisation will unreasonably and adversely impact a number of transaction types. In summary, the industry recommends that the following types of transactions should be scoped out of the re-securitisation definition: a) multi-seller ABCP conduits, which fund broader economy securitisation assets; b) restructurings of single transactions, c) regulatory-approved restructurings of multiple transactions, which are designed to address some of the current market problems. In addition, it will be necessary to introduce a materiality threshold for existing transactions where the securitisation positions as a percentage of the aggregate nominal amount of securitisation is de minimis. An amount such as 5-10% will virtually eliminate the ability to create leverage.

Impact on bank capital

Although we agree that the capital requirements for some structured transactions should be revisited, the implications of increasing capital for re-securitisations could be significant, particularly as rating agencies are revisiting their approaches to re-securitisations and introducing more conservative assumptions. There is therefore likely to be a dual impact of downgrades on existing transactions and more conservative ratings on new transactions going forward, which will in itself increase capital, on top of the impact of the BCBS proposals. The implications for banks' capital requirements will be significant and there is a risk that the vital role securitisations will play in supporting the recovery of the broader economy will be impeded. As the changes in capital arising from the CP150 proposals have not been included in the QIS, it is not clear to us how unintended consequences will be captured and their impact assessed. In our view they are likely to be substantial and warrant further investigation.

Pillar 2

Scope

Our members have in place processes to manage the capital adequacy at every level of their group but we believe that the regulatory focus should be on the group-wide ICAAP. This should be the mechanism for regulatory dialogue on a consolidated basis, providing a holistic view of the entirety of a group's activities and the way in which the risks arising from them are managed.

Role of colleges

Properly constructed colleges, involving the supervisors responsible for regulating the most significant parts of the group, represent, we believe, the best way forward for the oversight of internationally active groups. Colleges should plan the scope of the Pillar 2 exercise in order to optimise the time taken and resources utilised by both the firm and the regulator and to avoid duplication of effort, for instance in the preparation of multiple levels of ICAAP report.

Pillar 3

We support the principle of improved disclosure, particularly in relation to securitisation, but encourage regulators to strike the right balance between more disclosure, the reporting burden these place on firms, and the ability of other market participants to assimilate and interpret the information.

Sponsored transactions

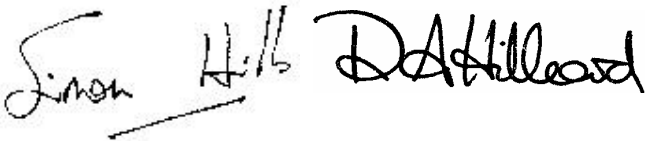
Where, in the past, a firm has sponsored a transaction but not retained any exposure, it will not have maintained information on exposures securitised and will find it extremely difficult to provide the disclosures required. The Committee should permit grandfathering of existing transactions where no risk has been retained by the sponsor.

Pipeline and warehousing risks

We understand that the sudden evaporation of securitisation funding caused serious problems for some institutions and this is why regulators have a valid interest in this area. However, we believe that pipeline and warehousing risks would be more appropriately handled in the discussions on liquidity regulation and that any related disclosures pertaining to the use of securitisation funding should be considered there.

We would appreciate the opportunity to discuss further any of these comments as well as those made in the individual modular responses and to hear your views on our response. To arrange this please contact Simon Hills at IBFed, Diane Hilleard at LIBA, Ed Duncan at ISDA, or Rick Watson at ESF.

Yours sincerely



Simon Hills

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Ed Duncan



Rick Watson