Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

OICU-IOSCO

IOSCO-BCBS Task Force on Securitisation Markets 9 June 2014

Questionnaire to market participants on developments in securitisation markets

Purpose

The International Organization of Securities Commissions (**IOSCO**) and the Basel Committee on Banking Supervision (**BCBS**), in consultation with the International Association of Insurance Supervisors (**IAIS**) and the International Accounting Standards Board (**IASB**), are reviewing the evolution of securitisation markets since the global financial crisis.

This review of securitisation markets is intended to understand and identify potential impediments to the development of sustainable markets, as well as provide a contemporary basis for discussion about what further action, if any, by the relevant international standard setters may be appropriate for the development of sustainable securitisation markets.

The aim of this questionnaire, conducted by the IOSCO-BCBS Task Force on Securitisation Markets, is to survey market participants for their views on how securitisation markets have evolved since the financial crisis. The questionnaire asks whether they consider there are factors that may be hindering the development of sustainable securitisation markets as a diverse and resilient source of market-based finance, and whether there are factors inhibiting the participation of investors, particularly non-bank investors.

Specifically, this questionnaire for market participants seeks views on:

- Market developments in securitisation markets since the crisis;
- Market and regulatory developments which may be impediments to the development of sustainable securitisation markets;
- Increasing the participation of non-bank investors in securitisation markets;
- The development of simple and transparent securitisation structures.

A similar questionnaire will survey regulatory authorities.

Background

Securitisation markets have been flat since the financial crisis. In 2013, issuance of securitised products amounted to approximately USD530 billion in the US (28% of pre-crisis levels) and approximately USD 60 billion in Europe (12% of pre-crisis levels), with a significant proportion of those being retained for central bank repo funding.

The on-going low levels of activity in securitisation markets comes as capital markets are emerging as important alternative sources of funding for supporting economic recovery. The significance of the development of sound and sustainable market-based finance is reflected in the current G20 and Financial Stability Board (**FSB**) work agendas on shadow banking. While there is a need, given the lessons of the crisis, to ensure securitisation markets and participants are appropriately monitored and regulated, the development of orderly and sustainable securitisation markets could provide a further alternative source of funding for economic activity. Securitisation could also provide indirect market access to certain borrowers, such as SMEs, who are otherwise unable to access markets directly.

Completing the questionnaire

This document is the static version of the questionnaire.

The questionnaire can be completed only online at https://www.iosco.org/surveys/2014-TFSM-Survey-for-Market-Participants/. This link will be active as of 3 July 2014. If your institution is intending to respond to this questionnaire, log-in details will be automatically generated after registering in the provided URL above.

The online questionnaire should be completed by **25 July 2014**.

Should you have any questions about this questionnaire, please contact Raquel Lago (Raquel.Lago@bis.org) and Tim Pinkowski (t.pinkowski@iosco.org).

Confidentiality

The IOSCO-BCBS Task Force on Securitisation Markets appreciates that responses to the questionnaire may elicit market or commercially sensitive information.

To address this issue:

- Each respondent is requested to indicate what information is market or commercially sensitive in its response;
- Non-public information concerning one respondent will not be shared with any another respondent.

Section A – Respondent details

This section seeks information on details of the respondent.

1. **Please provide the following information for your institution:**

- Name of respondent institution: BlackRock
- Name of primary contact person: Joanna Cound
- Contact number of primary contact person
- Email address of primary contact person
- Name of secondary contact person: Janet Oram
- Contact number of secondary contact person
- Email address of secondary contact person

2. **Please indicate which of the following best describes your participation in securitisation markets. Please indicate all that apply:**

- Issuer
- Bank/Dealer — Primary
- Bank/Dealer — Secondary
- Investor — Asset Manager
- Investor — Hedge Fund
- Investor — Bank
- Investor — Insurance / Pension Fund
- Service Provider (eg Trustee, Asset Management Company)
- Rating Agency
- Servicer
- Accountant / Lawyer
- Other

3. **Which of the following best describes your role in your institution:**

- Trader
- Salesperson
- Portfolio manager/analyst
- Structurer/arranger
- Senior management
- Risk/compliance officer
- Other

4. **Please indicate the main region area in which your work is mostly focused:**

- Asia-Pacific
- Europe
- North America
- Global

- Other

5. In which of the following securitisation product markets do you actively participate? Please select all that apply and indicate whether you participate in a primary and/or secondary market(s).

- Residential mortgage backed securities
  - Primary market
  - Secondary market
  - Both markets
- Commercial mortgage backed securities
  - Primary market
  - Secondary market
  - Both markets
- Non mortgage asset backed securities (please list the specific types of non-mortgage ABS assets involved, eg auto loans and leases, credit cards, student loans, container leases, equipment leases, utility stranded costs, SME loans, consumer loans)
  - Primary market
  - Secondary market
  - Both markets
- Cash collateralised debt obligations
  - Primary market
  - Secondary market
  - Both markets
- Synthetic collateralised debt obligations
  - Primary market
  - Secondary market
  - Both markets
- Asset backed commercial paper
  - Primary market
  - Secondary market
  - Both markets
- Other short-term / money market instruments
  - Primary market
  - Secondary market
  - Both markets
- Others (please specify)
  - Primary market
  - Secondary market
  - Both markets
- None of the above

WE ARE NOT RESPONDING TO SECTION B

Section C – Increasing Future Participation in Securitisation Markets

This section seeks industry views on what factors are important for increasing future participation in securitisation markets by issuers and investors (with a particular focus on non-bank investors).

12. What three non-regulation based actions/solutions/initiatives do you think could be undertaken to resolve market factor impediments?

BlackRock recommends the following two initiatives to overcome market impediments to greater investment in securitisations:

1. The ability to easily stratify, drill down into or manipulate the data available on the enterprise data warehouse (EDW) would be a material benefit to the investor community – particularly to small investors or new entrants who do not have the capacity to easily manage such large volumes of data internally. A user friendly software interface – with the basic functionality free to market - to analyse data within or between deals would improve the usefulness of this information. We would, however, caution that the issues (i.e. corruption) that appeared in some of the earlier uploaded data must first be overcome and understand that EDW is already undertaking work to ensure the reliability of its data.
2. Once sufficient historic data has been gathered, a further improvement would be to develop statistical models allowing investors to analyse the performance impact of certain loan characteristics over time. This would enable the development of predictive models with which to analyse pools.

13. What three actions/solutions/initiatives in relation to relevant regulation do you think could be undertaken to resolve regulatory factor impediments?

BlackRock recommends the following three initiatives to resolve regulatory impediments:

1. **Properly calibrated incentives for investors to allocate capital to securitised instruments, in the area of prudential capital.** Basel III proposals on the risk weighted assets (RWAs) for securitised instruments in banks' balance sheets, Capital Requirement Directive IV / Regulation (CRD IV/CRR) Liquidity Coverage Ratio (LCR) for banks and Solvency II capital requirements for insurers are still too high. They do not reflect the historic performance of the related securitised assets and are disproportionate compared to the capital requirements for other fixed income securities and underlying asset pools.
2. **Consistency across regulatory regimes.** Regulations, both proposed and those already in force, contain different obligations for different market participants and use inconsistent definitions. In the EU, for example, the CRR and AIFMD place different qualitative requirements on the investor in terms of thorough investment analysis prior to making an investment (AIFMD Article 52 vs. CRR article 46). We understand that a transaction can meet the retention requirements of CRR but not be compliant with the AIFMD as the CRR permits the originator to be viewed on a consolidated basis.

3. **Avoids negative incentives for investors.** The requirement for investors to judge whether risk retention constructions are in line with the rules, and the fact that penalties for non-compliance sit with the investor (and not the originator or sponsor) means that some transactions carry potential regulatory risk making them less appealing and less liquid.

14. Looking forward, for each of the following, please indicate how important, in your opinion, each is to increasing issuer participation in securitisation markets:

(a) **Improved macroeconomic factors**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

The low issuance volume of securitised assets is primarily due to the weak macroeconomic context, particularly in the EU, resulting in low volumes of credit originated.

(b) **Availability of funding alternatives, such as central bank funding, covered and corporate bonds**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

Banks' easy access to central bank funding has deterred them from issuing securitised assets. For example, European banks still benefit from significant amounts of funding from the ECB or the Bank of England in the case of UK banks and this artificially cheap funding makes securitisation seem expensive.

Securitisation has always co-existed with the covered bond and corporate bond markets, giving issuers options for diversity in their funding sources. In respect of these alternative sources, what is critical is that there should be appropriate calibration to ensure that there is no unjustified regulatory burden penalising one asset class over another.

(c) **General improvement in investor perception of securitisation as an investment class**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant

- Not at all important

We do not believe that investor perception of securitisation as an investment class is an issue. Investor demand appears to be relatively robust in both the EU and the US. Investors or potential investors are not deterred from investing in securitisations because of the misuses of securitisation during the financial crisis but because of inappropriate capital requirements or because the risk-reward profile of the securitisation does not meet their requirements.

(d) **Increased availability of assets to be securitised**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

In the specific case of the Eurozone, consumer and corporate demand for credit was low and banks' credit standards were tight from the financial crisis until the end of last year resulting in low volumes of credit being originated. Since the start of this year, consumer demand for credit has been increasing while demand from corporates has more recently shown the first signs of turning positive in certain countries.

In the US, credit demand is relatively robust in every sector except the non-conforming residential mortgage. As a result, the issuance of US non-agency RMBS (having non-conforming residential mortgages as underlying) is very low relative to before the financial crisis and still contracting.

In addition, the Basel III obligation for banks to shrink their balance sheet in order to meet the required leverage ratio also limits the amount of available assets to be securitised. Banks are more focused on reducing their leverage ratio (which will not be reduced with the use of securitisation but increased) than freeing up capital for additional lending via securitisation.

(e) **Revisions to accounting rules, capital, liquidity, collateral (etc.) treatment for securitisation instruments and comparable investment assets (such as highly rated corporate bonds) including:**

(i) Changes to mark-to-market accounting rules (e.g. principles-based guidance on valuation in highly volatile or illiquid markets)

(ii) Revisions to regulatory capital requirements for securitised products, to the treatment of securitisations in liquidity buffers, as collateral, etc.

(iii) Revisions to rules for off-balance sheet treatment of securitisation vehicles (e.g. de-recognition and consolidation of SIVs)

- Extremely important (i, ii and/or iii)
- Very important (i, ii and/or iii)
- Somewhat important (i, ii and/or iii)

- Somewhat unimportant (i, ii and/or iii)
- Not at all important (i, ii and/or iii)

We have no comment on this section.

(f) **Regulatory treatment of swaps for swap providers (for issuers using ABS to fund their balance sheets) and of other third party providers of ancillary services such as issuer and GIC accounts that would facilitate insulating the performance of securitisations from the performance of the service provider**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

We have no comment on this question.

(g) **Increased rating transparency for those securitisations subject to sovereign and/or ancillary facilities rating caps**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

We feel that the importance of this to issuers depends largely on the end-investor's perception - please see our answer relating to this topic in the investor section below.

(h) **Clearer regulatory distinction and different regulatory treatment of plain vanilla securitisations from more complex transactions (and if so, in which regulatory areas such as capital, liquidity, collateral, other, should such different regulatory treatment be given)?**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

As per item (g) above, the importance of these treatments is linked to the end-investor - please see our answer relating to this topic in the investor section below. From an issuer perspective, clarity around the definition of what constitutes "plain vanilla" or "complex" transactions will be key in order for transactions to be appropriately structured to meet the needs (regulatory or otherwise) of investors.

(i) **Risk retention requirements**

- Extremely important
- Very important

- Somewhat important
- Somewhat unimportant
- Not at all important

BlackRock broadly commends the positive steps that policymakers have taken so far to encourage safe securitisation. Risk retention requirements for securitisations in the EU and the US are designed to increase the accountability of the originator, sponsor or original lender and alignment of interests with investors.

We note, however, that the aims of risk retention in Europe (alignment of interest) are different to those in the US (prudent underwriting). This is problematic when considering cross-border transactions where investors on one side of the Atlantic are considering investing in assets originated on the other side.

Moreover, we agree with the comments in the ECB-BoE discussion paper that "while retention requirements are to be welcomed for better aligning the interests of issuers and investors, they may act as a deterrent to some issuers, particularly non-banks, who may find it problematic to fund retained portions. The inconsistent implementation of retention requirements globally may also result in unequal treatment across different jurisdictions."

Some of the pre-crisis transactions – the vast majority of which emanated from the US – suffered in part from mis-alignment of interest from investors. In this case, parties within a transaction had no disincentive to behave in a manner which was detrimental to the end-investors (i.e. clients of asset managers). Risk retention, as constructed in Europe, seeks to align interests between the originators/sponsors and investors. However, a large part of the problem was arguably also that investors in both the US and Europe did not undertake sufficiently robust thorough investment analysis (arguably due to the lack of information) and thus did not understand what they were acquiring. Whilst risk retention somewhat addresses the former (incentives) issue, it does not address the latter (lack of investor understanding / thorough investment analysis).

We are concerned that the risk retention requirement may only partly address the issues of the past – poor transparency, poor quality collateral, leading to misaligned incentives – but also prevent non-bank issuers from accessing the securitisation markets for funding – reducing the ability of the non-bank sector to finance European economies.

(j) **Regulatory support for small and medium enterprises securitisations**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

Issuers over the past few years have securitised SME loans in Collateralised Loan Obligation (CLO) form, primarily as collateral in order to access the ECB funding window. There has also been a handful of publicly placed deals. For the latter to grow in volume, investor demand has to increase but this will mainly depend on greater standardisation, enhanced transparency and homogeneity in SME lending criteria and policies as well as measures to address information asymmetry and any mis-alignment of interests.

However, even with these improvements, it is important to recognise that this securitisation channel alone will not meet all of the demand for SME financing in the EU as SME pools are by definition more heterogeneous in nature leading to significant challenges in addressing information asymmetries.

We see that a number of policy makers focus on SME CLOs as being the main source of securitised funding to SME. However, many securitisations exist of leasing assets (auto and to a lesser extent, equipment) whose underlying obligors are primarily, or completely, SMEs / corporates. In addition, the role of Asset Backed Commercial Paper (ABCP) in financing SME loans is important. ABCP allows banks to finance the loans and receivables of SMEs from a broad range of countries in which they might find difficult to lend to directly. The significance of this role is demonstrated by the fact that some ABCP conduit pools benefit from supranational guarantees.

We note that ABCP is not term securitisation. But ABCP does share similarities with term securitisations in certain structural characteristics, certain assets in the underlying pool and especially in the benefits it affords to the capital markets and overall economy.

(k) **Other (please provide relevant details and reasoning for your response)**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

We have no further comments.

15. Of the factors outlined in question 14, which are the three most important to increasing <u>issuer</u> participation in securitisation markets?

We believe that to increase issuers' participation in securitisation, it is critical that:

1. The macroeconomic context improves. We believe that the securitisation market, especially in Europe, will be stimulated once economic conditions normalise.

2. The rules around the leverage ratio for banks are recalibrated to increase their ability to originate and securitise assets and be less focused on shrinking their balance sheet.
3. A holistic view be taken of the incentives aiming at stimulating lending and securitisation. Measures to foster the former (such as the ECB's TLTRO and the Bank of England's Funding for Lending program) in providing cheap funding to banks discourage securitisation by making it a relatively more expensive source of funding for banks.

16. Looking forward, for each of the following, please indicate how important, in your opinion, each is to increasing investor participation (particularly non-bank investor participation) in securitisation markets:

(a) **Improved macroeconomic factors**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

Without an improvement in the macroeconomic environment, issuance will not increase. The current low levels of issuance do not encourage investors to invest in the people or technology necessary to conduct the appropriate thorough investment analysis of securitisations.

(b) **Availability of investment alternatives, such as covered and corporate bonds**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

In the same way that issuers look to diversify their funding sources, investors look to diversify their investments across asset classes. The availability of alternative investments will not in itself affect investors' participation in the market. As we highlight in our answer to Q14, the securitisation market has co-existed with these other asset classes in the past. This is a mis-alignment of regulatory treatments between the classes that will, however, affect the allocation of funds between them.

(c) **Improved perception (whether positive or negative) of securitisation as an investment class**

- Extremely important
- Very important

- Somewhat important
- Somewhat unimportant
- Not at all important

As we highlight in our answer to Q14, we do not believe that investor perception of securitisation as an investment class needs to improve. Concerns over the asset class are predominantly of a regulatory nature.

(d) **Decreased / increased complexity of securitised products**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

We are unclear as to how the term "complexity" is defined for this question and have therefore not provided a specific rating. We have interpreted the term "complexity" for the purpose of our response below as meaning a transaction where there is insufficient clarity for all the inherent risks to be easily understood by investors. BlackRock believes that it is critical for investors to have transparency of information to properly understand the risks of the securitised assets in which they invest.

Structures should be clear, complete and presented in an understandable manner. Complicated repayment mechanisms can make it difficult for investors to assess likely risk and return, especially in times of market stress. Given that the ability to analyse and demonstrate understanding of securitised structures is a fundamental requirement for investors (as made more explicit in EU regulations such as AIFMD, Solvency II and Basel III), disclosure of all structural characteristics to investors should be clear and complete. Credit enhancement and features such as hedging and liquidity provisions should be appropriately designed to mitigate the risks in the transaction and fully disclosed.

(e) **Availability of securitised products with the required yield and risk profile**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

Investors may suffer from a lack of availability of securitised products with the yield and risk profile they require as securitisation in the recent past has largely been used by banks as liquid collateral to obtain funding from other banks and/or central banks. As a result, the yield and risk profile is not always attractive to invetors. The volume of issuance placed with end-investors remains relatively low.

(f) **Relative return compared with other comparable credit products**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

If securitisation does not offer attractive investment opportunites compared with alternative asset classes, there is no incentive for investors to invest in the systems and staff to support investment in the sector. In this context, attractive can be similar risk/return to other asset classes providing diversification of risk and/or return not available in other asset classes.

(g) **Enhanced disclosure and standardisation of product information, including:**

(i) Improved disclosure of information/data on underlying assets (e.g. type of data, level of detail, degree of reliability, accessibility)

(ii) Improved disclosure of collateral underwriting and origination practices

(iii) Increased standardisation (e.g. of definitions, of investor reports) and simplification of documentation

(iv) Improved disclosure for exposure to securitised/structured product risks, both 'on' and 'off' balance sheet

- Extremely important (i, ii iii and/or iv)
- Very important (i, ii iii and/or iv)
- Somewhat important (i, ii iii and/or iv)
- Somewhat unimportant (i, ii iii and/or iv)
- Not at all important (i, ii iii and/or iv)

(i) Improved disclosure of information/data on underlying assets (e.g. type of data, level of detail, degree of reliability, accessibility)

We strongly support the availability of data on underlying assets being made available to investors in order for them to make informed decisions about the likely credit performance and therefore cash-flows from a pool. In general, sufficient transparency of the underlying data provided to the rating agencies should be made available to investors to minimise overeliance on ratings. There has been an improvement in information provision since the crisis and we therefore believe that focusing now on improved data quality and ease of access will more beneficial than concentrating on more disclosure. The risk exists that unnecessary levels of poor quality disclosure may actually act as disincentive for new investors by adding complexity and by undermining the ability to come to a holistic and meaningful view of the underlying assets.

The level of detail required by investors varies between asset types. It should not be assumed that, as a general rule, investors require the level of data to re-underwrite all the assets in every pool of every asset type. For example, this is typically not done for every ABS asset type.

In more concentrated or less homogeneous pools (such as SME CLOs or large-loan CMBS), however, it is more important to look at individual loan characteristics. While most investors probably do not want and are not expected to re-underwrite the pool, there should be both sufficient qualitative information available on the borrowers to give investors a good guide to the quality of the pool (such as length of time established, time with bank, historic default performance, security details, underwriting lease / tenant information, credit score etc.) and quantitative data of sufficiently high quality and detail to ensure as robust modelling as individual investors require. It should be noted that with assets such as these, a key part of the credit decision is gaining comfort with the underwriting, servicing and risk and control processes of the originator.

We would be very pleased to see the development of centralised credit bureaux in every jurisdiction with both positive and negative information shared on a standard basis between all lenders. With this in place, originators would be more able to supply the details that investors require on securitised pools. However, we do not think that direct access to such bureaux by ABS investors would be practical or should be necessary.

(ii) Improved disclosure of collateral underwriting and origination practices

Given the requirements on many investors (e.g. under CRR and AIFMD) to understand these processes and confirm that they are appropriate, additional information is starting to be disclosed to allow investors to be compliant. Whilst information is not always as forthcoming as it could be (we have declined transactions on this basis), the market definitely seems to be moving in the right direction.

(iii) Increased standardisation (e.g. of definitions, of investor reports) and simplification of documentation

We are in favour of standardisation of documents, structures and investor reporting wherever this can be achieved without limiting the flexibility of deals to cope with the differing products and legal jurisdictions that are currently contemplated in the securitisation market (or may be in the future).

In terms of investor reports, there are clearly fields that are common to virtually all transactions and standardisation of some of the definitions and required fields would be useful. Full standardisation is problematic since templates are either i) so large in order to capture all options that they are unwieldy or ii) simplified to the lowest common denominator.

A central repository for investor reports – e.g. the EDW – would aid access to information and ensure appropriate availability. It may then also be possible to implement some type of low level audit which could serve as a quality indicator (for example checking that the asset balance carried forward from the previous report is the same as that brought forward in the current one; that the reported movement in assets is equal to the movement in liabilities etc.).

(iv) Improved disclosure for exposure to securitised/structured product risks, both 'on' and 'off' balance sheet

We have interpreted this as meaning additional disclosure with respect to originators/sponsors. With the exception of the disclosure of retained risk for regulatory purposes which is key, detailed information of securitised exposures on a originator's/sponsor's balance sheet is not fundamental to the analysis of a securitised investment. However, additional disclosure of on and off balance sheet exposures would be very helpful for corporate investors looking at the balance sheets of these entities.

(h) **Increased rating transparency for those securitisations subject to sovereign and ancillary facilities rating caps**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant

- Not at all important

Post-closing, we agree that it would be very useful for rating actions to disclose the combined impact of sovereign / counterparty rating caps applied to a credit rating so that the underlying credit can be separated from the ratings impact of the associated links. We should note though that the press release accompanying most actions specifies the rationale for the action allowing investors some ability to differentiate the ratings and understand where rating caps have been applied.

We have observed in recent primary issuance that the underlying transactions have been structured to the ratings cap. Therefore the rating should the cap be removed would not be different.

For example:

- A €500m asset pool (taking no account of sovereign cap) requires 20% credit enhancement for a AAA rating and 15% credit enhancement for a AA rating.
- The sovereign cap is set at AA.
- The originator has two options:
  - sell €400m AA bonds with 20% credit enhancement or
  - sell €425m AA bonds with 16% credit enhancement

Given that the market is highly unlikely to differentiate (or in any case materially differentiate) in terms of pricing, the rational originator structures with 16% credit enhancement and sells more bonds against the same portfolio. Therefore the sovereign cap has impacted the structuring approach rather than simplify capping what would have been a more highly rated bond otherwise.

We are not suggesting that this is the case in all transactions but we have noted this in several transactions.

(i) **Greater price transparency, including:**

  (i) Public dissemination of actual exchange and OTC trade prices for individual securities

  (ii) Greater transparency with regard to bid and ask spreads for reported trades

  - Extremely important
  - Very important
  - Somewhat important
  - Somewhat unimportant
  - Not at all important

BlackRock supports requirements to have the prices at which individual securities have traded made publicly available as this would help new entrants to the market and would be supportive of liquidity. Attaching volume data to the price information has pros and cons; if a large block of a security is traded, disclosure of the size may lead to the identity of the seller becoming known which would be negative. However, trades of very small size would not necessarily be at a price representative of more usual trading. We would suggest that prices should be accompanied by an single indicator to highlight whether trade size is above or below a materiality threshold – perhaps set at £1m/€1m/$1m.

In respect of reporting of bid-ask spreads for completed trades we see that this would be more problematic since in many cases (such as a bid-wanted-in-competition (BWIC) or where a seller solicits best bids from a number of counterparties) only the bid will be known.

(j) **Confidence in collateral underwriting and origination practices.**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

BlackRock strongly believes that confidence in originators' underwriting and origination practices is crucial. In asset classes such as SME CLOs where the lending is very much relationship based (i.e. relationship between the lender and the SME) and the assets are heterogeneous, understanding and trusting the controls in place at origination and on servicing is key to the investment decision.

Additionally, it is vital that investors have confidence that the originators/sponsors will not adversely select assets against them. Originators' motivation may be to sell their highest risk exposures and it can be very difficult for the buy-side to identify this in an underlying asset pool. This is one of the reasons why we are very supportive of the disclosure of loan level detail and reporting on the ongoing performance of the pool.

It is important therefore that potential conflicts between the sponsors and/or the servicers and investors should be clearly identified and their impact mitigated through carefully documented terms that are fully disclosed. Accountability has been promoted to some extent through the implementation of credit risk retention by originator, sponsor or original lender.

(k) **Greater valuation certainty, coming from:**

(i) Increased availability and reliability of models and tools

(ii) Increased availability and reliability of underlying data

(iii) Increased confidence in the robustness of securitisation structures and their behaviour in all market conditions (operational robustness, legal certainty, predictability of cash waterfalls)

- Extremely important (i, ii and/or iii)
- Very important (i, ii and/or iii)
- Somewhat important (i, ii and/or iii)
- Somewhat unimportant (i, ii and/or iii)
- Not at all important (i, ii and/or iii)

We do not think that this necessarily needs to be an aim in and of itself – greater understanding of the risks of a transaction, and therefore a greater ability to form a value judgement will naturally follow from the elements listed above. However, a large driver of price (it is unclear as to whether the question refers to fundamental value or market price) will be the demand for the asset class which will be driven by, amongst other things, investors being hampered or not by regulatory constraints, central bank funding lines, volume of issuance, market liquidity etc.

(l) **Increased confidence in credit rating agencies**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

Investors, particularly given the new regulatory requirements set out in the AIFMD, CRR etc., do not to our knowledge base their investment decisions solely on credit ratings, without undertaking their own thorough investment analysis. The agency ratings and reports are a useful additional view in forming a credit decision but not the driver.

There is a second level where ratings are important. The end-investors (i.e. clients of asset managers) will often use ratings as a way of comparing portfolios, creating limits within investment mandates and overseeing the asset manager. In addition, for some banks and insurance companies, the ratings determine the regulatory "bucket" that assets fall into.

We feel that disclosure of all material information on which the rating is based (subject to commercial sensitivities) and rating criteria is important but unlikely to be a key driver in increasing investor participation.

(m) **Risk retention requirements between stakeholders across the securitisation value chain, including at the following points along the securitisation value chain:**

(i) Originators

(ii) Dealers / Arrangers

(iii) Investors

(iv) Credit rating agencies

(v) Individuals at any of the above

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

As we commented in our response to this topic in Q14, mis-alignment of interest has been a significant problem in transactions. In our view, it is extremely important to eliminate where possible, or minimise and fully disclose where not possible, conflicts of interest between the various parties in the transaction. The EU risk retention rules seek to align interests which is not the same as looking to avoid mis-alignment.

As could be inferred from the question, current risk retention does not address mis-alignment of interest between investors and non-sponsor/originator counterparties such as structurers, servicers or swap providers. We would not advocate risk retention requirements being placed on these additional counterparties – we do not think this would address the problem and may result in fewer counterparties being prepared to be involved in transactions which would be a negative for the market.

In terms of rating agencies, they are not parties to the transaction and therefore whilst there may have been confilicts of interest within the business model, they should be addressed separately to this.

Compliance with the AIFMD requirement for managers of Alternative Investment Funds (AIFs) and, potentially in the future, UCITS managers to ensure that securitisations in which they invest meet the 5% retention limit becomes problematic for non-EU issued securitisations where there are not equivalent retention rules. Without equivalence of requirements or a form of mutual recognition, more uncertainty is added, leading to inconsistent interpretation of the requirements and making investment in securitisations more complex and expensive.

If mis-alignment of interest could be avoided through an alternative to risk retention, we would be equally comfortable to see that included within the regulations.

(n) **Other alignment of incentives mechanisms**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

Please see answer to (m) above. Unfortunately, mis-alignment of interest can occur in many places in a structure between various counterparties and therefore a single set of rules or mechanisms is very hard to define without looking at transactions on a case by case basis.

(o) **Presence of any particular product features (please also specify what product features you consider to be important) and whether you expect identified desired product features to originate from market, rating agencies or regulatory expectations**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

We do not feel able to provide a ranking for this question but would observe that the market needs to develop to encompass the products that underlying borrowers/creditors want to access and structures that meet the needs of originators/sponsors and investors. Over time, as the economic environment changes, the securitisation market will need to adapt. In a well functioning market these changes should be organic.

(p) **Clearer regulatory distinction (capital, liquidity, other) and appropriate treatment of plain vanilla securitisations from more complex transactions**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

We believe that policymakers should provide properly calibrated incentives for investors to allocate capital to securitised instruments in the areas of capital (Basel III RWA and leverage ratio and Solvency II Solvency Capital Requirements), liquidity and collateral regulation. To achieve this, clear distinctions are needed between appropriately structured securitisations, which are to benefit from any more favourable treatment, and those reflective of some of the poor practices that were the problem during the financial crisis.

BlackRock is of the view that regulating the global securitisation market calibrated on the basis of the poor performance of certain types of securitisation or asset classes in certain geographies during the financial crisis is a flawed approach that is unnecessarily and disproportionately impairing the recovery of a properly functioning securitisation sector.

Properly calibrated regulatory treatment for appropriately structured securitsations will enable those regulated entities to engage in the securitisation market – increasing the range of their investment opportunities and will contribute to a larger, more stable and more liquid securitisation market for all investors.

(q) **Less regulatory restrictions such as capital disincentives on investing in securitisation assets**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

As we note above, the regulatory regime around securitisation is not always coherent and supportive of securitisation. It does not consistently provide properly calibrated incentives for investors to allocate capital to securitised instruments. We believe that regulation should recognise that securitisation is a funding method as well as a diverse asset class and, as such, must properly account for differences between securitisation and other types of assets.

Basel III new rules for RWAs for bank investors in securitisation (re-proposed in December 2013) are still too high compared with either historic loss in most asset classes, or the capital requirements of the underlying asset pools. This will discourage banks from investing in securitisation transactions. It is critical that policy makers recalibrate the proposals better to reflect historic performance, and to bring securitisation into line with the capital requirements for other fixed income securities and underlying asset pools.

Under the Credit Requirement Directive IV (CRD IV), the Liquidity Coverage Ratio (LCR) allows for the inclusion of highly rated Residential Mortgage Backed Securities (RMBS) as long as the underlying loans have a Loan to Value Ratio (LTV) that is below 80% and all the loans are full recourse. This requirement is an arbitrary measure of risk, focusing on just one predictor of default (i.e. the LTV) out of many and will deter banks from investing in pools of RMBS that historically have low losses and may also have high LTVs. We would also recommend that the LCR allows for the inclusion of ABS a high-quality liquid asset (HQLA).

With regard to non-bank investors, Solvency II rules will significantly increase the amount of capital that insurance companies are required to put aside for certain securitised exposures vs. the underlying loans. In our experience, this has already deterred insurance companies from allocating new capital to securitisations and we expect insurance companies' exposures to securitisation to fall to zero if Solvency II provisions remain inalterated. In our view, the capital charges are not supported by historical experience.

We set out below a table with regulatory initiatives that we think need further review to promote securitisation:

Initiatives that need further review	
CRD4/R **EBA Level 2 measures on** **LCR**	‘AA’-rated or higher RMBS eligible for the LCR as long as underlying loans have a LTV that is < = 80% and all the loans are full recourse. This helps stimulate securitization as a safe tool to increase liquidity. However, obligation to have a Loan to Value Ratio (LTV) that is below 80% is arbitrary. There are many factors that determine risk, of which LTV is just one. This rule has the effect of excluding pools (such as Dutch RMBS) that have historically low losses, but potentially allowing pools of borrowers with impaired credit who may have lower LTV loans but are arguably higher risk.
Dodd-Frank Act **LCR**	Non-agency RMBS and highly rated term ABS non eligible for the LCR. Only corporate bonds and certain publicly listed equities are. This penalises banks’ investments in securitisation.
Dodd-Frank Act **Credit ratings**	US banks cannot rely on the explicit credit ratings of securitisation for investment or regulatory capital allocation purposes – while EU banks can - and must rely only on a credit rating system developed by the Office of the Comptroller of the Currency (OCC). This will make it difficult for banks to assign an appropriate risk weighting factor to securitised assets for the puropose of Basel III Core Tier I Capital and act as another headwind to investment.
Risk Weighted Asset (RWA)/ **Basel III**	RWA calibration in credit institutions’ balance sheet has an overly broad “one-size-fits-all” approach, treating securitization as an asset class rather than a financing method that can be used for different types of risks. Potential adverse impact on investment in securitizations. Policymakers should recalibrate the RWA for securitizations.
Solvency 2/EIOPA	Increases significantly the amount of capital that insurance companies will have to put aside for certain securitized notes to a level we believe is unwarranted. Likely to disincentivise insurance companies from investing in securitizations. May instead incentivse investment in whole loan pools which carry more risk than the equivalent securitisation but require less capital.
Money Market Funds (MMFs)	MMFs would only be able to invest in securitized assets where underlying exposure consists exclusively of corporate debt, and with a legal maturity at issuance of 397 days or less and a residual maturity of 397 days or less. This prohibits MMFs from investing in ABCP in which is backed by both corporate and consumer debt. If this strict interpretation is maintained, then EU Bank-sponsored ABCP conduits will cease issuing any ECP and flip all funding to the USCP market as IMMFA MMFs represent over 75% in ABCP, an important

	and growing form of working capital support for companies in the EU.
MMFs Rule 2a-7	▶ Restriction on investment in ABCP: underlying asset pools financed in an ABCP conduit are restricted to a legal or residual maturity of < = 397 days but both corporate and consumer pools can be financed in the conduits.
Shadow Banking	▶ The intensifying focus on "shadow banking" could easily have indirect consequences on securitization volumes, by limiting the attractiveness of repo of ABS or the investment appetite of MMFs. ▶ Policymakers should take all our principles into consideration when deliberating on a regulation of securitization as part of the "shadow banking" debate.

(r) **Availability of better liquidity in relevant asset classes**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

We do not believe that there is a problem with liquidity in the ABS market, nor do we believe that perception of illiquidity (other than perhaps as it feeds into regulatory thinking/calibration) is a material hindrance to investors allocating funds to the asset class. That is not to say that we do not think that liquidity is an important consideration – our relative value / investment decision will factor in the expected liquidity of the asset.

(s) **Availability of a vibrant and active bank investor base in ABS who may act as market makers and thus ensure a more liquid market**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

In line with our responses to the various regulatory questions above, we believe that addressing the regulatory impediments currently restricting or disincentivising banks from investing in securitisation would be positive for the market. However, a market-making role is distinct from an investing role although review of the regulatory approach would be positive for both types of participation.

(t) **Assistance for the private sector in developing initiatives to enhance the market liquidity of securitisations**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

As we have said in our answer to (r) above, we do not believe that the perceptions of illiquidity are hampering investment in the sector and therefore initiatives to enhance market liquidity are unlikely to materially impact investor participation.

(u) **Better internal capabilities and ability to evaluate, measure and manage risk**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

Investors require appropriate systems and expertise to assess and manage the risks inherent in investing in securitisations. However, this is a lagging rather than leading indicator – greater investment in people and technology will follow greater issuance and not the other way around.

(v) **Other (please provide relevant details and reasoning for your response)**

- Extremely important
- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important

Please provide reasons and supporting detail and information for your response.

We have no further comments.

17. Of the factors outlined in question 16, which are the three most important to increasing investor participation (especially non-bank investor participation) in securitisation markets?

We believe that to increase investors' participation in securitisation, it is critical that:

1. The various policy measures that affect securitisation in Europe, including capital requirements, are consistent, properly calibrated and do not deter the responsible use of securitisation.
2. All payment mechanisms, noteholder rights, and misalignments of interest are fully and transparently disclosed to investors in a manner that they are able to make informed investment decisions

3. Investors have confidence in collateral underwriting and origination practices.

Section D – Supporting the Development of Simple and Transparent Securitisation Structures

IOSCO and the BCBS seeks industry views to determine whether there is an opportunity to enhance investor confidence in simple and transparent securitisation structures and overcome the negative perception of securitisation stemming from the crisis. The development of criteria for such securitisations could provide an incentive to encourage the development of safer structures and thus avoid the experience of the unsound structures that led to the financial crisis. Accordingly, this section seeks industry views on:

Possible criteria to use to identify simple and transparent securitisation structures;

Whether simple and transparent securitisation structures (as defined by your jurisdiction) are available in your jurisdiction;

Whether regulators and/or regulation should, and how it can, assist the financial industry to develop simple and transparent securitisation structures.

18. What are the most important characteristics of simple and transparent securitisation structures which might address the negative perceptions about securitisation stemming from the crisis?

While BlackRock agrees that securitisations should have characteristics that are understandable and clear, we believe that the term “simple” is too vague and too restrictive. What really matters is that the structure is clear and understandable for investors which does not necessarily equate with “simple”. We replace this with the expressions “not over-engineered” and “transparent” in our responses below.

We have developed the global guiding principles set out below. These principles cannot be a substitute for investors’ robust credit evaluation and structural analysis or a substitute for experience but we believe that they can serve as a useful tool for policy makers to identify the most important characteristics of “not over-engineered” and “transparent” securitisation.

1. **High-quality, prudent underwriting standards that are evaluated and administered properly.**

   The funding and securitisation process must start with the introduction of high-quality underlying receivables. Underwriting standards must be prudent, as well as evaluated and administered properly and disclosed.

2. **Quality servicing standards should be established.**

   Servicing agreements should clearly lay out the responsibilities of the servicer in ensuring the receivables are serviced in accordance with good market practice and all relevant regulatory requirements and codes of conduct. Clear reporting requirements are needed for all aspects of asset performance (including borrower and/or originator fraud in addition to the regular arrears/loss, etc. detail) and cash flows.

3. Transparent and accessible asset and transaction information.

Investors should have timely and accurate information on the composition and performance of the asset pool, both at the point of issuance and on an ongoing basis. Investor reports should include detailed liability side reporting, allowing all cash flows to be reconciled, as well as details on how the securitisation satisfies any specific regulatory requirements. All underlying transaction documents should be freely available to current and prospective investors.

The availability of information on an ongoing basis is critical to developing a liquid secondary market to allow future purchasers to adequately assess securitisation programmes. It is critical that information be made available on a timely basis through means that are not impacted by any conflict with or control by the sponsor, the servicer or other parties to the transaction.

Transparency of information will benefit investors, sponsors and servicers by equalising the data evaluated as part of the investment decision-making process at issuance and during the ongoing servicing of the assets. While we understand the need to protect the confidentiality of certain asset data, this need for protection should be balanced against investors' need for accurate information.

4. Conflicts of interest should be identified and managed properly.

Any potential conflicts between the sponsor and/or the servicer and investors should be clearly identified and their impact should be mitigated through careful commercially documented terms that are fully disclosed. The potential conflicts that may arise over time between different classes of holders in the asset-backed transaction should be recognised and contractual procedures to address such conflicts should be identified and clearly disclosed. This includes full and democratic dissemination of information to decrease the impact of any information arbitrage between the parties.

5. Structures should be clear, complete and presented in an understandable manner.

Excessive tranching and complicated payout rights make it difficult for investors to assess likely risk and return, especially in times of market stress, and should be mitigated. However, we are against the imposition of a maximum number of tranches which we believe is arbitrary. Given that the ability to analyse and demonstrate understanding of securitised vehicles is a fundamental requirement for investors (as made more explicit in EU regulations such as AIFMD, Solvency II and the latest Basel rules), disclosure of all structural characteristics to investors should be clear and complete. Credit enhancement and structural features such as hedging and liquidity provision should be appropriately designed to mitigate the risks in the transaction.

6. **Appropriate alignment of originator, sponsor or original lender and investor interests.**

   Recognising that securitisation is a risk transfer between the sponsor and the investors in the resultant securities, it is critical to have full and clear disclosure of the nature of all risks being transferred, both at the asset level and as a consequence of the structural characteristics of the securitisation's terms. Accountability has been promoted to some extent through the implementation of credit risk retention by originator, sponsor or original lender.

These principles for sound regulation are not a substitute for investors' robust credit evaluation and structural analysis nor will they prevent losses on securities that do not perform as anticipated. However, they do provide a framework that ensures investors have protections against potential abuses as well as the tools necessary to understand the risks involved. We believe this will, in turn, encourage greater investor interest in securitisation.

Importantly, there is no one-size-fits-all approach. Differences exist between securitised products, and flexibility in the rules is required to account for these differences so as not to inhibit the emergence of new types of securitisations. Different jurisdictions will also require there are differences in structures.

19. Are there simple and transparent securitisation structures with these characteristics available in the jurisdiction(s) in which you are active?

Yes

No

The majority of publicly placed US and European securitisations in the past two years (predominantly prime RMBS and autos ABS in the EU and auto and credit card ABS in the US) have fulfilled most of the above criteria. We believe that investors have so far been able to be quite selective on transactions, driving changes to structures/terms, helped by the fact that sponsors/originators have to be compliant with new regulatory requirements.

20. (If no to Q19) What factors, in your view, have inhibited the development of transparent and simple securitisation structures in the jurisdiction(s) in which you are active?

For some transactions, the lesser sophistication of originators in terms of their processes and systems has inhibited their ability to be fully transparent in terms of data provision or to provide comfort in relation to appropriate risk controls.

21. What investor base would you envisage for the simple and transparent structures with the characteristics you have nominated as the most important?

We do not feel that there is a specific targeted investor segment for these structures. They will likely encompass a large part of the market and therefore we would expect most investors in the securitised market to have some allocation to them. Typical investors include insurance companies, pension funds, SWF and mutual funds.

22. What applications/uses would you envisage for simple and transparent securitisation structures? Do you envisage regulatory and/or contractual (i.e. market driven) applications? Should the transparency and simplicity change with the intended use of such structures or could a minimum set of common features be determined?

Regulators are spending significant amounts of time thinking about how best to define “transparent”, “qualifying” or “type A” securitisations and we welcome this effort. Once there is agreement on where the principles sit, we would see these definitions as being the appropriate basis for all regulatory requirements in order to provide consistency across the space. It is likely that for specific regulatory uses there may need to be additional principles – for example LCR assets may need to be the most senior note in a structure - but we would generally see a core of fundamental principles common to all regulatory uses.

In terms of market applications, to the extent a standard definition was established where transactions could be consistently and reliably be identified as meeting the standard or not (this is also key to the regulatory use) it is quite possible that some investment mandates may start to use the definition but this will very much depend on the type of investor, the offerings of the asset manager and the target risk or return profile required.

23. Should regulators and/or regulation assist industry to (further) develop simple and transparent securitisation structures? If yes, why is regulatory intervention needed?

Yes

No

Don't know

We do not feel that there is a necessity for regulators to determine definitions for “transparent” securitisation solely to assist investors in understanding the products or making investment decisions. We have always been cautious of the risk of labels being unduly relied on over time, encouraging lazy investment. We do however strongly support the development of an appropriate set of principles for use consistently throughout the various pieces of regulation where regulators feel they need to differentiate between types of structure/behaviours in the market.

24. **(If yes to Q23) Please describe the role, if any, regulators and/or regulation could and/or should play in the process of defining simple and transparent securitisation structures. Your answer should also consider the following options:**

Regulators setting out criteria for simple and transparent securitisation structures;

Encouraging the market to set out criteria for simple, transparent and structurally robust securitisation structures

The benefits and drawbacks of the two approaches above and other approaches you have suggested.

Given our views, expressed above, about the definition being key to drive regulation, we feel that the best approach is for regulators and market participants to determine together the appropriate principles. Whilst a potentially longer process, this should result in a better outcome – one that seeks to minimise any unintended consequences, but one that is also less likely to be driven by vested interests.

It is key that any definition is sufficiently flexible that it does not inhibit the development of new products or structures to reflect changes in legal frameworks / consumer credit etc. This is part of the reasons why we strongly support a principles based approach rather than one based on specific asset characteristics such as LTV for example.

We believe that coordination between policy makers at the global level is key to set out criteria for “not over-engineered” and “transparent” securitisation and to define the best practices in securitisations such that these principles are consistently applied within different regulations and across jurisdictions. Our global guiding principles outlined above can serve as a useful starting point for policy makers.

25. **Please describe the role, if any, regulators and/or regulation could and/or should play in market’s adoption of simple, transparent and structurally robust securitisation structures. Your answer should also consider the following options:**

Encouraging the market to issue and invest in such structures through specific capital, liquidity, collateral, other treatment;

Supporting the market to use such structures contractually by encouraging an informed debate about the benefits of such structures;

The benefits and drawbacks of the two approaches above and other approaches you have suggested.

We believe that the current regulatory framework for securitisation penalises issuers and investors. In order to encourage the market to issue and invest in safe securitisation, we would welcome a favourable regulatory treatment (in terms of capital, liquidity and leverage requirements) for these types of structures. We detail our concerns and related suggestions on this matter in section C.

The fact that there is a penalty for investing in "non-safe" securitisations in terms of capital / liquidity / regulatory requirements means that in some circumstances investors may not be comfortable making judgment calls on compliance with a definition. For this reason we would strongly support either

i) the penalty being removed or

ii) a timely (i.e. available to investors during the marketing phase of a new transaction), inexpensive (so as not to create a barrier to issuance) and reliable (i.e. sanctioned by regulators and not able to be reversed with consequences for investors) affirmation of whether a transaction falls within the definitions required by the regulatory regime.

An important point in this discussion is that there will always be some transactions that fall outside of a definition. It should be understood that some of these will be perfectly appropriate investments for particular types of investors, having done a robust thorough investment analysis. We would also stress that securitisation is a technology rather than an asset class. It is therefore possible that transactions that were never contemplated as securitisations in the traditional sense fall within scope and it may be inappropriate for these to be contractually excluded simply because of their use of a particular structuring technique.

WE ARE NOT RESPONDING TO SECTION E