



October 5, 2017

Filed electronically

William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Consultative Document – *Criteria for identifying simple, transparent and comparable short-term securitisations*

Dear Mr. Coen:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Basel Committee on Banking Supervision (Committee) and the Board of the International Organization of Securities Commissions' Consultative Document *Criteria for identifying simple, transparent and comparable short-term securitisations*.¹ Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 60,000 credit unions in 109 countries with USD 1.8 trillion in total assets serving 223 million physical person members.²

We support the Committee's efforts to revise the securitization framework to assist the financial industry in the development of simple, transparent and comparable (STC) term securitization structures. Given the increases in risk weights now applicable in the *Revised Securitisation Framework*,³ the reduced risk weights for STC securitisations are welcomed and ideally will lead to the rebuilding of a robust securitization market that will be beneficial for financial institutions.

This letter is supplemental to World Council's comment letter⁴ filed simultaneously on the Basel Committee's Consultative Document on the *Capital treatment for simple, transparent and comparable short-term securitisations*.⁵

¹ Basel Committee on Banking Supervision & Board of the International Organization of Securities Commissions, *Criteria for identifying simple, transparent and comparable short-term securitisations* (July 2017), available at <http://www.bis.org/bcbs/publ/d414.htm>.

² World Council of Credit Unions, *2015 Statistical Report* (2016), available at https://www.woccu.org/documents/2015_Statistical_Report_WOCCU.

³ See Basel Committee on Banking Supervision, *Criteria for identifying simple, transparent and comparable securitisations* (July 2015), available at www.bis.org/bcbs/publ/d332.htm.

⁴ http://www.woccu.org/advocacy/position_papers.

⁵ Basel Committee on Banking Supervision, *Capital treatment for simple, transparent and comparable short-term securitisations* (July 2017), available at <http://www.bis.org/bcbs/publ/d413.htm>.



We note the comments contained in a recent United States Department of Treasury report stating that a well-functioning securitization market with active repeat issuance can reduce the funding risk of lenders, lower funding costs and thereby lower borrowing costs for consumers.⁶ In this context we support the direction of the Committee to assist the financial industry in the development of STC securitization structures.

Issuance of or investment in asset-backed commercial paper is relatively uncommon for credit unions and other community-based financial cooperatives. Some Australian mutual banks issue asset-backed commercial paper and, prior to the global financial crisis beginning in 2007, some Canadian credit unions and wholesale credit unions in the United States also issued asset-backed commercial paper. Canadian and US credit unions largely withdrew from issuing these investments, however, as a result of dislocations in the asset-backed commercial paper markets in those jurisdictions beginning in 2007.⁷

Credit unions and similar mutuals in a few jurisdictions—such as state-chartered credit unions in the US states of Florida, Georgia, Iowa and Maine—are allowed to invest in commercial paper subject to minimum credit quality standards and portfolio limitations,⁸ although most credit unions' portfolio shaping rules do not allow credit unions to invest in commercial paper.

⁶ See U.S. Department of Treasury, *Opportunities and Challenges in Online Marketplace Lending* (2016), available at https://www.treasury.gov/connect/blog/Documents/Opportunities_and_Challenges_in_Online_Marketplace_Lending_white_paper.pdf

⁷ See, e.g., Brendan O'Neill & Mike Dean, Restructuring of Canada's \$32 Billion Market in Asset-Backed Commercial Paper Completed Through a CCAA Plan of Compromise and Arrangement, *INSOL World* (Q2 2009), available at [http://www.goodmans.ca/files/file/docs/Restructuring%20of%20Canada%27s%20\\$32%20Billion%20Market.pdf](http://www.goodmans.ca/files/file/docs/Restructuring%20of%20Canada%27s%20$32%20Billion%20Market.pdf).

⁸ See Fla. Stat. § 657.04(3)(b), available at http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=0600-0699/0657/Sections/0657.042.html ("INVESTMENT SUBJECT TO LIMITATION OF TWO PERCENT OF CAPITAL OF THE CREDIT UNION.— . . . Commercial paper and bonds of any corporation within the United States which have a fixed maturity, as provided in subsection (7), except that the total investment in all such paper and bonds may not exceed 10 percent of the capital of the credit union."); Ga. Code Ann. § 7-1-650(4)(E), available at <https://dbf.georgia.gov/georgia-laws-ocga-title-7>; Iowa 533.301(5)(h), available at <https://coolice.legis.iowa.gov/Cool-ICE/default.asp?category=billinfo&service=iowaCode&input=533#533.301>; Me. Rev. Stat. Ann Title 9B, § 862(C), available at <http://legislature.maine.gov/statutes/9-B/title9-Bsec862.html> ("In the case of commercial paper, the commercial paper should be rated in the 2 highest grades.").



Q1. Do respondents agree with the short-term STC criteria set out in the Annex? In particular, are the criteria clear enough to allow for the development of STC short-term securitisations by the financial industry?

World Council supports the proposed requirements in Criterion C15 that conduit sponsors should be financial institutions that are licensed to take deposits from the public, and strongly supports the proposal to give national regulators discretion regarding what prudential standards and level of supervision are appropriate for domestic depository institutions such as credit unions and similar financial cooperatives.

Credit unions rarely operate on a cross-border basis and are typically subject to national-level rulebooks that may not be easily comparable to those in other jurisdictions, especially in the European Union (EU) where credit unions in most Member States are exempt from the EU's Capital Requirements Directive.⁹ Credit unions in these and other jurisdictions are subject to stringent investment portfolio shaping rules that often make it unnecessary to apply risk-based capital requirements; further, without national discretion in this area an institution may not have the flexibility to conduct the activities necessary to sufficiently participate in the market.

Overall, we believe that the criteria are sufficient except that we are concerned that Criterion A1 on Asset Risk would require consideration of homogeneity in terms of asset type, jurisdictional legal system, and currency. We urge further clarification in this area, especially in the context of the EU, to reduce regulatory burden and to provide additional certainty as to when an asset can be considered homogeneous.

Similarly, we urge the Committee to clarify Criterion B9's proposed requirement that "interest rate . . . risk [be] appropriately mitigated" by either referencing an applicable Basel Committee standard (such as on *Interest rate risk in the banking book*¹⁰) or by allowing national discretion in this area.

⁹ See Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, Article 2(5), 2013 O.J. (L 176) 338, available at http://ec.europa.eu/internal_market/bank/regcapital/legislation-in-force/index_en.htm.

¹⁰ See Basel Committee on Banking Supervision, *Interest rate risk in the banking book* (April 2016), available at <http://www.bis.org/bcbs/publ/d368.htm>.



- Q2. ***Which additional criteria would respondents consider necessary, if any, and what additional provisions would be useful or necessary to support the use of the short-term STC criteria? Are there particular criteria that could hinder the development of sustainable securitization markets due, for example, to the cost of their implementation?***

We are concerned that the requirements of Criterion C16 could hinder the development of a sustainable asset-backed commercial paper market because it would require the seller to have significant expertise in servicing asset-backed commercial paper conduits as well as a management team with extensive industry experience. If finalized as proposed, this means only market incumbents with long track records of originating and servicing asset-backed commercial paper will be permitted to be issuers.

Permitting only market incumbents with long track records of originating and servicing asset-backed commercial paper to issue these investments will be a barrier to entry for smaller financial institutions, such as credit unions and other community-based mutuals, which is not consistent with the principle of a regulatory level playing field.

We urge the Committee to specify what is required to constitute adequate experience. We also urge the Committee to clarify that these requirements can be met through the use of a third party or independent contractor to help meet the experience requirement.

- Q3. ***Do respondents find the split of short-term STC criteria between conduit level and transaction level appropriate? And if not, which criterion does not appear appropriate?***

We support the Committee's approach as proposed. This appears to be an appropriate approach as it allows ease of identifying the respective parties' roles and obligations in the transaction.

- Q4. ***Do respondents agree that the right balance has been achieved in the short-term STC criteria between the level of transparency needed by investors exposed to commercial paper issued by STC [asset-backed commercial paper] conduits and the need to protect the "private" nature of the underlying transactions financed by such STC [asset-backed commercial paper] conduits?***

We agree with the comments in the consultative document that full disclosure of granular data to asset-backed commercial paper investors can be unreasonably burdensome and we appreciate the proposed approach that emphasizes the accountability of the conduit's sponsor to investors. We acknowledge the difficulty in drawing the balance between disclosure and privacy. We urge the



Committee, however, to monitor this issue as this is implemented and propose adjustments as necessary in the future.

World Council appreciates the opportunity to comment on the Consultative Document on the *Criteria for identifying simple, transparent and comparable short-term securitisations*. If you have questions about our comments, please feel free to contact me at aprice@woccu.org or +1.202.508.6776.

Sincerely,

A handwritten signature in black ink, appearing to read 'Andrew T. Price', written in a cursive style.

Andrew T. Price
Regulatory Counsel
World Council of Credit Unions