Opinion of True Sale International GmbH[1] on the BCBS Consultative Document "Revisions to the Basel Securitisation Framework" (December 2012) and

The supplementary Working Papers No 22 "Foundations of the Proposed Modified Supervisory Formula Approach" (January 2013) and No 23 "The Proposed Revised Ratings-Based Approach" (January 2013)

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I. Executive Summary

1. Securitisations constitute an important instrument for financing the real economy and are the link between the credit and capital markets. This is true both of term securitisations, used by banks to fund their credit business, and of ABCP structures, through which banks provide their corporate clients directly with liquidity, combined with relief for their own credit lines. From the German perspective, securitisation is used, in particular, as a direct or indirect means of financing the real economy and SMEs, which form the backbone of the German economy. Typical key asset classes in the German securitisation market are consequently SME loans, trade receivables, leasing receivables and, not least, auto finance. For automobile manufacturers, sales financing – and refinancing – is one of the most significant strategic parameters for maintaining and expanding the business volume.

2. The underlying capital requirements presumably arising from the Consultative Document do not reflect economic reality in Europe or in Germany or the outstanding development of performance of the European or German securitisation market, including during the crisis. In that respect, we thus note a marked contrast to the development of the securitisation market in the United States, which engendered the "originate to distribute" business model and, ultimately, supported by a combination of a lax lending policy and a relaxed monetary policy, led to the US subprime phenomenon. From the regulatory perspective, it would seem appropriate to us to adopt a differentiated view and, ultimately, also a differentiated treatment of the very heterogeneous securitisation markets.

3. Unilateral – additional – regulatory discrimination of securitisations over other products seems inappropriate and should be urgently reconsidered. Ground is increasingly being gained by the realisation that the topic of asset encumbrance is closely bound up with the regulatory privileging of covered bonds, as the variability of coverage makes it possible to offset downgrades at the issuing bank to a certain extent through overcollateralisation. There is no such negative, pro-cyclical dynamism in the case of securitisation. As it may also be assumed for the future that senior unsecured bank bonds will become increasingly unattractive to investors because of the bail-in issue, securitisations constitute a suitable, complementary product allowing a diversified approach to raise long-term funding in the capital markets.

4. In the meantime, numerous official analyses e.g. by the IMF, the G30, the ECB and the ESRB are also calling attention to the fundamental potential benefits of the instrument of securitisation, e.g. as an instrument for refinancing long-term assets and, in particular, as an instrument to securing funding for the

real economy. A host of regulatory securitisation standards – in Europe, first and foremost, Article 122(a) of the CRD – have already been implemented. In conjunction with the ECB's loan-level data requirements that apply as from this year, to securitisations, these regulations - non-existent for other credit products - have a benchmark character in terms of transparency, balance of interests and risk management. The financial industry additionally helps with its PCS label at the European level and the German counterpart DEUTSCHER VERBRIEFUNGSSTANDARD of True Sale International enhance the quality of the securitisation market even further.

5. It would therefore also be important to create appropriate regulatory framework conditions enabling the ABS investor base to expand by avoiding regulatory arbitrage. The conditions should place potential ABS investors in a position that would enable them in their decision-making process, to weigh alternatives without any bias.

6. The outstanding quality of German and European securitisations justifies non-discriminatory regulatory treatment. In this Opinion we provide empirical material on both ABCPs and term securitisations as evidence of this quality. A representative study on the German ABCP market prepared by True Sale International in 2011 showed, for example, that the ABCP transactions reviewed had, fundamentally, both better ratings and lower risk fluctuations than the companies involved. Robust structures meant that these transactions did not incur losses in the period under review at the level of the liquidity-providing banks or among ABCP investors. With regard to term securitisations, for the crisis period from 2007 to 2012, S&P calculated that in Europe, only 1.1% of the volume of bonds originally outstanding of EUR 2.8 trillion defaulted. In the case of many asset classes of particular significance in Germany, such as SME and auto finance, the percentage values are even better.

7. A non-differentiated calibration of regulatory models for the European securitisation market, based on empirical data derived from the securitisation market in the United States with its specific originate to distribute phenomenon, lax lending practices and non-recourse lending secured by residential property in most US States, must inevitably lead to disproportionate results. We therefore suggest that the current proposals to revise the securitisation framework be supplemented by a "high quality regime" for high quality securitisation positions. For transactions to which this high quality regime applies, this should lead to correspondingly low risk weightings remaining the same as in the current rules. The allocation to the high quality regime should be based primarily on an assessment of the securitised portfolio and, in particular, be geared to aspects such as the close link of securitised assets to the real economy and the quality of the underlying assets.

Considering such quality features is not new in a supervisory assessment. This has already been enforced for securitisations in Germany by the implementation of Article 122(a) of the CRD II as Section 18 (a) and (b) of the German Banking Act. Likewise, Article 124 of the CRD IV defines quality features for covered bonds, which distinguish between regulatory privileged covered bonds and other covered bonds. Similarly, features of high quality ABS should also be defined and incorporated into the provisions governing risk weightings of securitisations of that kind.

8. To our fundamental criticism, as presented here, of the new framework's non-differentiated treatment of the entire securitisation market, we would like to add our technical criticism of the approaches presented. That criticism is based on extensive own calculations.

9. The MSFA, to which a key role in the hierarchy of approaches is attributed, is calibrated too conservatively and, in practice, barely feasible. To achieve risk weightings lower than the average risk weighting in the pool seems therefore only possible with excessive volumes of credit enhancement. In most cases, the KIRB parameter cannot be determined as data is missing or procedures are not available. The effect of the maturity parameter M is too strong and the economic characteristics of securitisations are not taken into account in determining it.

10. The RRBA and the IAA should be re-calibrated to achieve results consistent with the MSFA. Most of all, for maturities greater one year it should be possible to achieve the 20% risk weighting floor. The parameters of the approaches should be determined in a differentiated manner and credit should be given to the aforementioned high quality segment.

11. In the SSFA, the parameter p should be reduced from 1.5 to 0.5. The SSFA should, at the discretion of a bank, represent an alternative to the IAA and the RRBA and not depend on the decision of national supervisory authorities.

II. Basic comments

1. Overview

We welcome the opportunity to comment on the Consultative Document "Revisions to the Basel Securitisation Framework" and would like to proceed in our opinion as follows. In Section II we show why the instrument of securitisation is of vital importance as a means of funding the real economy and of ensuring diversified bank refinancing and ultimately a stable financial system. We therefore perceive the need for a regulatory "level playing field" and present a practical proposal for its structure. This is based on the idea of the very heterogeneous securitisation market being given differentiated regulatory treatment, based on a distinction being made between an explicit high quality segment across all approaches and normal transactions. We consider term securitisations as well as ABCP structures and support our comments in Section III with detailed information on the performance of securitisations during the crisis. Section IV summarises our deliberations once again leading into Section V, which outlines what we consider a practicable, verifiable way of distinguishing "high quality" matching the economic reality. Our comments and, in particular, sample calculations in Section V quantify and illustrate the main concerns we have with regard to the approaches presented in the Consultative Document or rather the findings derived from it with regard to future risk weightings and underlying capital requirements for securitisation exposures.

2. A differentiated view of the securitisation market is necessary

Securitisations constitute an important instrument for financing the real economy and are the link between the credit and capital markets. This is true both of term securitisations, used by banks to fund their credit business, and of ABCP structures, through which banks provide their corporate clients directly with liquidity, combined with relief for their own credit lines. ABCP structures are particularly appropriate in the case of smaller volumes which do not, of themselves, produce the volumes required for term securitisation. With the exception of trade receivables, which, because of their short maturities, are usually used for ABCP structures, all other types of assets related to the real economy can basically be refinanced through ABCP structures as well as through term securitisations. In practice, a mixed model is also frequently encountered, in which the assets to be securitised are collected in an ABCP structure until the volume required for a term securitisation is reached. Apart from the aforementioned trade receivables, our further comments will also deal, in particular, with the real economy asset classes of SME loans, leasing receivables and auto finance.

With few exceptions in the past, which can be limited essentially to the CDO market, driven by arbitrage considerations, and the "subprime RMBS" phenomenon, which only concerns the USA, by far the greatest proportion of all term securitisations are used to refinance existing loan portfolios of banks, finance companies, industrial enterprises and leasing companies. Corporate loans – as well as leasing recievables and car financing – are currently in Germany not refinanced via Pfandbriefe.

ABCP transactions, as an important sub-segment of the European securitisation market, assume considerable importance for the real economy as they constitute an alternative source of finance for enterprises with high volumes of receivables. This is relevant, specifically with regard to the special features of the German market, as ABCP transactions are of economic interest to small and medium-sized but also to large enterprises. Transactions of that kind offer enterprises a wider range of sources of finance and hence financial stability. The sponsor bank in an ABCP transaction derives its risk estimate almost exclusively from the financed asset portfolio. Enterprises can thus refinance themselves to the greatest extent possible irrespective of their own credit rating.

Having said that, we suggest, in addition to the current proposals to revise the securitisation framework, a "high quality regime" for high quality securitisation exposures applicable to all approaches should be introduced. In making a distinction between high quality and "non high quality", account should be taken, in particular, of structural transaction features and portfolio quality, in order, by analogy with the definition of "high quality assets" under the liquidity coverage ratio (LCR), to ensure consistent treatment across various regulatory areas. Moreover, it follows the idea of making a quality assessment of a securitisation exposure on the basis of processes and procedures checked by the supervisory authority, as has already been implemented in the context of Article 122(a) of the CRD II or, in Germany, through Section 18 (a) and (b) of the German Banking Act (for greater detail, see Section II below).

3. Lessons learned from the crisis: intrinsic value, quality and flexible options for use

The underlying capital requirements presumably arising from the Consultative Document do not reflect economic reality in Europe and are in contradiction to important lessons which emerged clearly in the course of the crisis. This applies both to absolute and also to relative assessments of securitisation, especially when the performance of securitisations is compared with that of covered bonds and adjusted for distorting effects. Unilateral – additional – regulatory discrimination appears inappropriate and should be urgently reconsidered.

Undesirable developments and exaggerations in the securitisation market in the United States doubtless reinforced the effects of the financial crisis in 2007, which was caused primarily by relaxed monetary policy and speculative overheating of the real estate market in the U.S. and was sustained for some time by pro-cyclical effects – especially as a result of mark-to-market evaluations. Viewed with hindsight, however, only an extremely small portion of the risks temporarily involved in market prices of European securitisations turned into definite losses for investors, as we will show in Section III below. The market price distortions during the crisis among other credit products – in particular covered bonds – were more moderate only because of explicit public support measures or implicit support assumptions by market players. All in all, today both product groups present a similar – heterogeneous – picture, which is reflected in considerable differences in risk premia in individual market segments or asset classes, and hence in an equally differentiated risk or quality perception on the part of investors.

The relative value and the relative potential benefits of securitisations cannot be assessed without looking at the bigger picture and including the related collateralised instrument of covered bonds. A study recently published by Commerzbank[2] shows there has been a paradigm shift driven by the crisis in the covered bond markets, which becomes apparent mainly in an adjusted credit quality structure of the overall market, a higher rating sensitivity and in a revised assessment of liquidity. For example, the more than 80% share of AAA-rated covered bonds in 2009 has shrunk to a mere 47% today. At the same time, more than 60% of the ratings outstanding (cp. end-2009: 30%) now only have a buffer of, at most, one notch above the issuer rating before a downgrade of the covered bond programme is inevitable. Following the collapse of market-making during the crisis, the liquidity situation in the covered bond market is described as "limited" or "down and staying there".

By comparison, despite extensive methodological adjustments or tightening by the rating agencies, the European share of AAA rated securitisations is around 66% and is thus far higher. In the case of securitisations, the dependence on the issuer rating is far lower and counterparty risks can be flexibly offset by structural means. To summarize: With regard to the liquidity situation, in terms of our concept of the high quality segment, if support measures – or assumptions – and current regulatory privileges are excluded, we see no structural drawback for securitisations compared to covered bonds.

Lastly, we would like to point out that securitisation techniques have been used in many different ways by the public sector, for example, at the European level, to the EFSF and ESM mechanisms and, not least, to the recent EU Project Bond Initiative. These examples show that central securitisation techniques such as

[2] Commerzbank "Covered Bond Telegram", 12 February 2013.

risk tranching in levels of different seniority for the purpose of distribution to various risk groups represent a useful instrument. In our opinion, the – regulatory – assessment of securitisations should therefore include, as far as possible, not only their character as a financing instrument for banks and the real economy but also their potential as an instrument for risk transfer and risk management.

4. Potential benefits of securitisations from the perspective of regulators and supervisory authorities

We are pleased that, particularly in recent times, the potential benefits of securitisations have been highlighted in a number of official publications and statements, e.g. by the IMF, the G30, the ECB and the ESRB. In the case of the ESRB report, regulatory consequences have been outlined especially in order to counter the risks arising from the unilateral regulatory privileging of covered bonds to date. These benefits should lead, by implication, to an increase in the relative attraction of securitisations.

Securitisation can essentially help to meet the growing need of the financial system for safe assets and hence ultimately increase its stability. Safe assets are needed, inter alia, as investment, to collateralise repo-transactions and, not least, to fulfil regulatory criteria such as, in the future, the liquidity coverage ratio. In its Financial Stability Review[3] of April 2012, the IMF pointed out that government bonds alone can no longer play the role of safe assets and recommended a policy of not unnecessarily impeding the supply of safe assets from the private economy as being of higher quality or securitisations and covered bonds that are embedded in safe prudential regulations. All in all, securitisations can help to increase the stability of the financial system by helping to prevent unilateral allocations of asset holdings.

The recently published report by the G30 Working Group on Long-Term Finance[4] makes it very clear that for long-term growth financing in Europe with, compared to the U.S., relatively little developed bond markets alternative financing channels must urgently be found to supplement conventional bank lending. A policy recommendation is therefore to provide support for the development of the markets for corporate bonds and securitisations. Regulators should take this recommendation as an incentive to create an appropriate regulatory framework for the development of the securitisation market for the purposes of refinancing long-term assets. This should allow SMEs, in particular, access to the capital market, which is of particular relevance for Germany, reflecting the key role of the Mittelstand in the German economy. A step in that direction would certainly be to expand the existing investor base for term securitisation by avoiding regulatory arbitrage and by placing investors considering

[3] IMF "Financial Stability Review – Chapter 3 'Safe Assets: Financial System Cornerstone'", April 2012. [4] Group of Thirty – Working Group on Long-Term Finance: "Long Term Finance and Economic Growth", 11 February 2013.

investments in a position enabling them, when taking their decisions, to weigh up alternatives without bias. We therefore consider prohibitive risk weightings or underlying capital requirements that are felt to be relatively disproportionate to be counterproductive, leading to a further shrinking of the investor base and to short-term irreversible damage for the market as the available infrastructure and human resources will presumably be further reduced.

The crisis is known to have led to a clear trend towards increasing the collateralisation of financial transactions, e.g. in derivatives. Likewise, every form of secured refinancing in the broadest sense, e.g. (private) repos, ECB transactions such as LTROs, and as regards bond instruments, covered bonds and, to a limited extent, securitisations, have shifted more strongly into the focus of investors. If a bank becomes insolvent, a privileged debt servicing of secured creditors follows, to the detriment primarily of unsecured bond holders as well as national deposit guarantee schemes. Supervisory authorities, including recently **BaFin**[5], **ESMA**[6] and, not least, the **ESRB**[7], are increasingly acknowledging the **phenomenon of asset encumbrance** and addressing it as a matter for discussion. Asset encumbrance is a dynamic phenomenon and is not only dependent on the development of issue volumes but also on the behaviour of the issuers in the case of a worsening of creditworthiness and on the criteria set by the rating agencies, in that the amount of **overcollateralization** required to achieve or maintain a specific target rating comes into play. While no consequence in the sense of a more advantageous or non-discriminatory regulatory framework with regard to securitisations has been derived to date, as we understand it, now a reversal in the trend becomes apparent as reflected by the aforementioned ESRB opinion. In the future, extensive – and, in our view, welcome – measures should evidently be initiated at the level of banks' risk management and as part of prudential monitoring and, not least, with regard to the creation of transparency for all market players. The advantages of securitisations with regard to asset encumbrance should then automatically come to the fore. As the time frame for the ESRB project extends until the end of 2016 and distinct market effects should presumably materialise only thereafter, we urgently recommend avoiding placing an excessive burden on the securitisation market through current regulatory plans such as the revision of the framework.

5. Particular features of the German securitisation market

Lastly, we would like to emphasise that the German securitisation market has some particular features that set it apart from other European markets; we would like to outline those features again briefly as background information. Whereas, in its initial stages, the German market was characterised by synthetic securitisations, particularly in the form of RMBS and SME-CLOs used for regulatory capital management, following the establishment of TSI in 2004 ap-

[5] BaFin "BaFinJournal 07/12 - Asset-Encumbrance: Was wird aus unbesicherten Bankanleihen?", July 2012. [6] ESMA "Report on Trends, Risks and Vulnerabilities No 1", January 2013. [7] ESRB "Recommendation of the European Systemic Risk Board of 20 December 2012 on funding of credit institutions", 18 February 2013

propriate legal framework conditions were quickly established for the execution of – certified – true sale transactions as the importance and the potential of the securitisation market as a means of funding the German economy had been recognised. The activities showed dynamic growth in the following – relatively short – three-year period up to the outbreak of the crisis. Another particular feature is that deposit funding and the Pfandbrief, in relation to real estate financing, historically was predominant in Germany, with the result that RMBS never played a significant role. Rather, securitisation activities in Germany were consistently used to provide liquidity for German enterprises, particularly from the Mittelstand, the backbone of the German economy. Apart from the Mittelstand, which is serviced, inter alia, through ABCP programmes, leasing and classic SME loan securitisations, large German car manufacturers and international automotive groups operating in Germany make intensive use of the instrument of securitisation, which ultimately supports the Mittelstand over the entire value added chain of the various supplier companies. For car manufacturers, sales financing – and refinancing – is one of the most important strategic parameters for maintaining and expanding business volume. As a result of legal provisions, historic market practices and, not least, the introduction of the TSI certification, the German market is quite clearly dominated by classic on-balance-sheet transactions, while the "originate to distribute" business model – typical of US subprime RMBS – has not, with a few exceptions, caught on.

III. Documentation of the quality of securitisations based on a performance analyse for ABCP programmes and term securitisations

1. Performance of German ABCP programmes

In recent years, there has been a fundamental change in the European ABCP programmes, which now function primarily as an instrument financing the real economy, as illustrated, for example, in a presentation by Moody's on 15 November 2012 ("Moody's 10th Annual Asset-Backed Commercial Paper Conference"). According to that presentation, between July 2007 and August 2012 the share of arbitrage-driven ABCP programmes decreased from 22% to 4%, and the hybrid share also declined from 22% to 18% ("mixed" programmes, used to finance securities and customer receivables). By contrast, in the five years under review, classic multi-seller programmes, through which the receivables portfolios of customers of the sponsor bank are mostly financed, recorded an increase of 28% to 50%. Roughly 70% of the portfolios of multi-seller conduits consist of trade receivables, auto loans and leases and consumer loans.

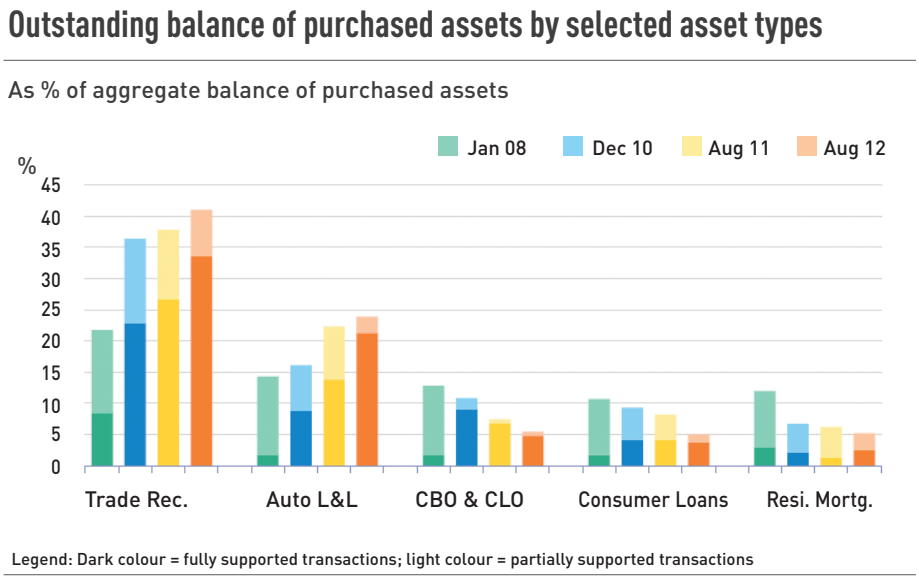


Figure 1: Volumes of purchased assets outstanding

The importance of ABCP transactions for the real economy is shown by the fact that, according to Moody's, the volumes of trade receivables financed via European ABCP programmes amounted in June 2012 to some USD 30 billion.

In January 2011 TSI prepared a representative study for Deutsche Bundesbank of just under 90 customer transactions by leading German providers of securitisation programmes for leasing and trade receivables.

In each case, the analysis addressed the expected loss rating of the transactions and the corporate rating of the purchaser of the receivables. The review period extended from 2008 to 2010.

The study revealed that the ABCP transactions had fundamentally better ratings and lower risk fluctuations than the companies involved. In the course of the crisis, the transaction ratings also regained their original level faster than the corporate ratings, especially as structural elements of the ABCP transactions proved to have a stabilising effect.

The robust structure of the transactions meant that, in the case of customer transactions, no losses were incurred either by the liquidity-providing banks concerned or among the ABCP investors as a result of four seller insolvencies in the period under review.

As a rule no external ratings are available for transactions of that kind, so the sponsors developed elaborate internal procedures, which have been subject to a stringent acceptance check by the national regulatory authorities (Regulatory Internal Assessment Approach). The following rating categories thus represent the sponsor's internal ratings (derived from the expected liquidity line losses).

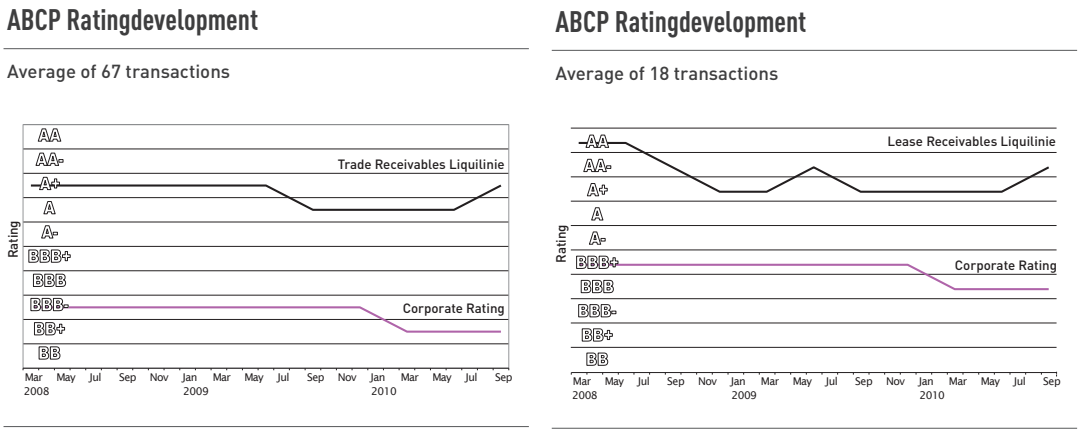


Figure 2a) and b): ABCP rating development of the basic population reviewed

The average internal ratings of trade receivables securitisations were accordingly in the single A category, while leasing receivables generally fluctuated between AA and A+. By contrast, the corresponding internal ratings of the receivables purchasers concerned were in the lower investment grade area and hence 3 to 5 notches below the liquidity lines. Against that background, it seems difficult to understand that sponsors would be burdened, for their liquidity lines, with capital weightings that are in most cases at or above the level of uncollateralised corporate risks.

To give an example, a BBB-rated corporate has an ABCP transaction for his granular trade receivables portfolio. The liquidity line for this transaction is A+ according to the sponsor bank's internal rating procedure (maturity: 365 days). In accordance with the present procedure, this liquidity line would be subject to a capital weighting of 10%. The new calibration takes the capital weighting of the liquidity line from 10% to 71% – seven times the original percentage – while the risk remains unchanged!

If, in the example given above, the transaction were executed with a leasing company with leasing agreements of up to 5 years, the capital weighting would soar from 10% to 124% (!) and then be capped at 100% – ten times the RWA. That is completely out of line with the good performance of German leasing receivables (see Section IV).

For this type of real economy securitisations, we therefore consider it necessary to calibrate the approaches to the underlying capital requirements (essentially, the regulatory IAA) available to the sponsor banks in such a way (and, as appropriate, to set them alongside the MSFA) that permits a continuation of that kind of corporate financing easy on capital. To that end, a contribution could be made by broadening the scope of the IAA application to structures refinanced through money market paper while, at the same time, adjusting the capital weightings for mid-range ratings in the single A area, with overall comparable levels as in the MSFA.

Alternatively, another solution might be for the MSFA to be extended so that, as part of a top-down approach, portfolio parameters are fed into the MSFA instead of loan-by-loan data (as a rule not available for these transactions). It should be possible to determine these portfolio parameters (essentially, PD and LGD) through IAA models that already exist and for them also to be used for foundation IRB banks without any further, time-consuming IRBA acceptance.

2. Performance of European real economy term securitisations

S&P[8] has calculated that, after five years of crisis or until mid-2012, of an original volume of bonds outstanding amounting to EUR 2.8 trillion, only 1.1% or EUR 30.7 billion defaulted in the European securitisation market. In relation to the original share of AAA bonds in the total volume of 88% or EUR 2.4 trillion, the cumulated default rate is even as low as 0.82%. The final loss for bond investors is further reduced by the relevant recovery rate.

In this five-year period, the rating of around two-thirds of the bonds outstanding remained stable or was slightly upgraded, while roughly one-third of the bonds were downgraded – some of them distinctly. The rating downgrades came about in many cases not because of poorer pool performance than expected but because of worsening sovereign ratings, increased counterparty risks and stricter rating criteria being applied by the agencies.

In terms of rating changes and default rates, the performance of the European securitisation market can thus be described overall as robust. The picture is even more positive if the very heterogeneous overall market is differentiated on the basis of individual asset classes. For instance, the cumulated default rates for consumer ABS (0.03%), RMBS (0.07%) or SME securitisations (0.23%) are well below the above-mentioned average value of 1.1%.

In particular, we would therefore like to point out in this connection that a calibration of regulatory models for the European securitisation market, based

[8] S&P "Five Years On. The European Structured Finance Cumulative Default Rate Is Only 1.1%", 23 August 2012.

on empirical values obtained for the US subprime RMBS securitisation market (originate-to-distribute, historically under-regulated, no recourse to real estate or borrowers), inevitably lead to disproportionate results out of keeping with economic reality, even if viewed conservatively. For instance, the above-mentioned S&P study indicates for the U.S., a cumulative downgrade rate of 51% (Europe: 32.8%) and a far higher cumulative default rate of 14.84% (Europe: 1.1%). This is essentially attributable to the very poor performance of the US subprime RMBS market. At no time in Europe or particularly in Germany, have there ever been lax lending practices such as those at the root of the problem or a corresponding dislocation of an entire credit market segment with poor credit quality such as the US subprime market. This important structural difference also becomes apparent, inter alia, in the completely different anticipated lifetime portfolio losses of various asset classes. The following table[9] illustrates not only the significant difference in the levels of US and European asset classes. The table shows the average cumulated lifetime losses currently expected by Moody's for individual RMBS categories at portfolio level as a percentage of the original transaction volume.

Year/Asset class	US Subprime	Alt-A	CES	HELOC	UK Prime	UK NC	UK BTL	Dutch RMBS	Spanish RMBS
2005	18.60%	12.70%	31.00%	18.00%	4.20%	4.20%	2.06%	0.54%	1.26%
2006	38.70%	25.40%	63.00%	45.00%	9.40%	9.40%	1.94%	0.66%	2.21%
2007	48.60%	29.40%	72.00%	46.00%	7.20%	7.20%	2.38%	0.50%	3.84%
2008	n/a	n/a	n/a	n/a	5.40%	5.40%	2.63%	0.63%	2.87%
2009	n/a	n/a	n/a	n/a	4.00%	4.00%	n/a	0.78%	2.42%
2010	n/a	n/a	n/a	n/a	n/a	n/a	2.50%	0.55%	9.75%
2011	n/a	n/a	n/a	n/a	n/a	n/a	2.50%	0.73%	6.16%
2012	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.65%	4.68%

Figure 3: Anticipated cumulated lifetime losses at portfolio level

There is certainly no question that at times in the course of the crisis, huge market value losses were incurred by portfolios of structured products. However, large parts of these market value losses have been reduced and corresponding value recoveries have been recorded. Given the market price risk component included in the new Securitisation Framework for the purpose of taking account of potential mark-to-market losses, we consider it appropriate to point out that, in this respect, it would be desirable to create a level playing field across various secured and unsecured instruments.

3. Performance of German term securitisations

The very good performance development of key German asset classes can be illustrated by taking the example of auto ABS (loans or leasing receivables) and SME CLOs. As an example of auto ABS, we will take the Volkswagen Driver (loan) Series or VCL (leasing receivables) Series and, as an example of SME CLOs, the transactions in the PROMISE series.

[9] Moody's "Global Structured Finance Collateral Performance Review", 4 February 2013.

Solely German transactions, Driver auto ABS have so far achieved a cumulative issuance volume of around EUR 18 billion. To that must be added some foreign transactions and more than EUR 15 billion in issue volumes under VCL leasing transactions. Numerous subsidiary bond tranches in both series have been given a rating upgrade during their term owing to above-average portfolio development. There have been no downgrades so far.[10]

The rating development ultimately reflects the very good pool performance of both series, some of which has even exceeded the expectations of the agencies, with minimal cumulative loss rates currently well below the 1% mark (see the following figures).

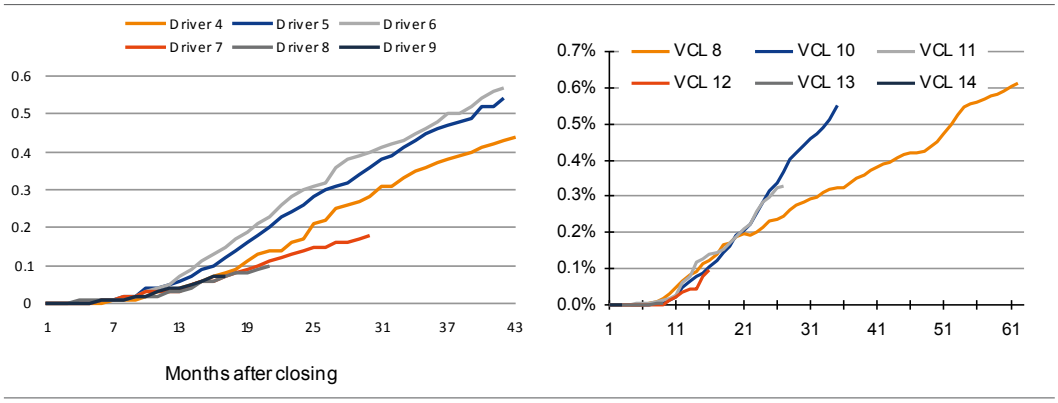


Figure 4 a/b: Cumulative portfolio losses in % of the original pool volume for auto loans (Driver Series) and auto leasing (VCL Series)

Even within European auto ABS, has been developing very well overall, German auto ABS occupy a leading position (see the following figure).

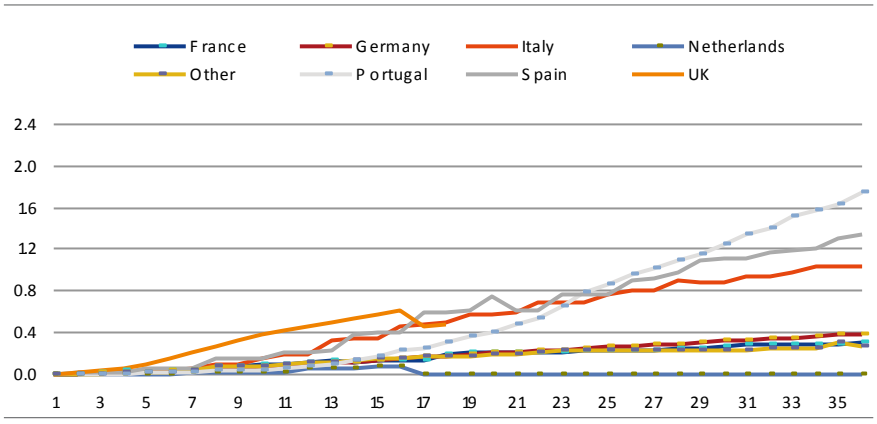


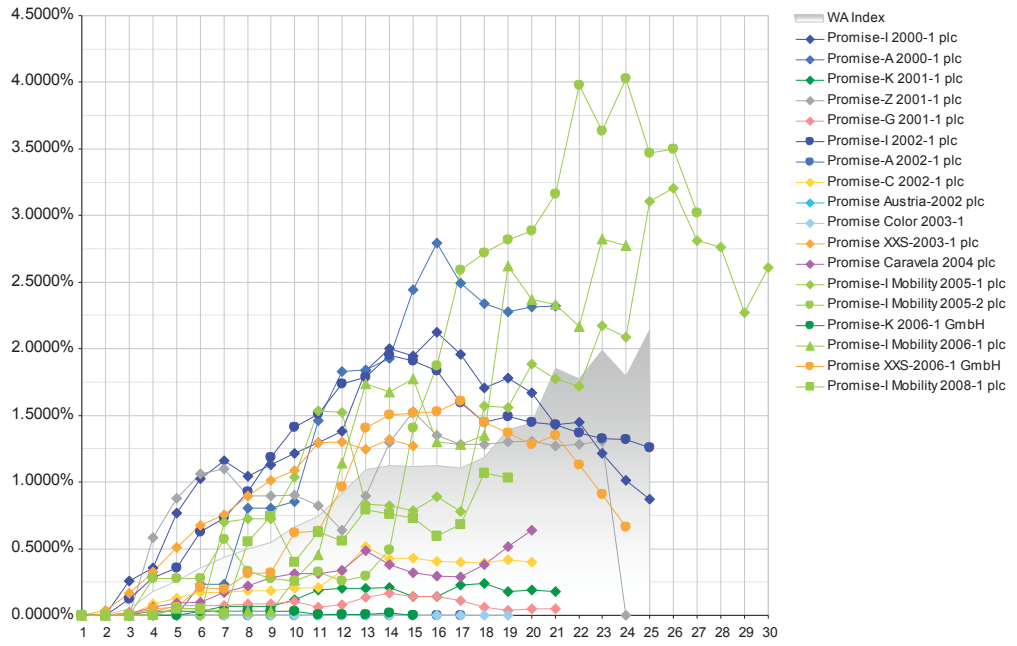
Figure 5: Cumulative portfolio losses of European auto ABS in % of the original pool volume; Source: DZ BANK, Moody's, Bloomberg; January 2013.

[10] For further details of the Driver Series, see DZ BANK "ABS & Structured Credits – Driver Ten", 16 January 2013.

Since 2000, 24 synthetic German SME CLOs with a total transaction volume of some EUR 40 billion have been placed in the market via KfW's PROMISE platform[11]. The pool performance developed very well across all transactions, with, apart from a few exceptions, a cumulative default rate of below 2% and relatively high recovery rates, which has ultimately led to realised portfolio losses that are generally well below 1%, as the following figures show.

Cumulated portfolio default rates of SME CLOs in the PROMISE Series

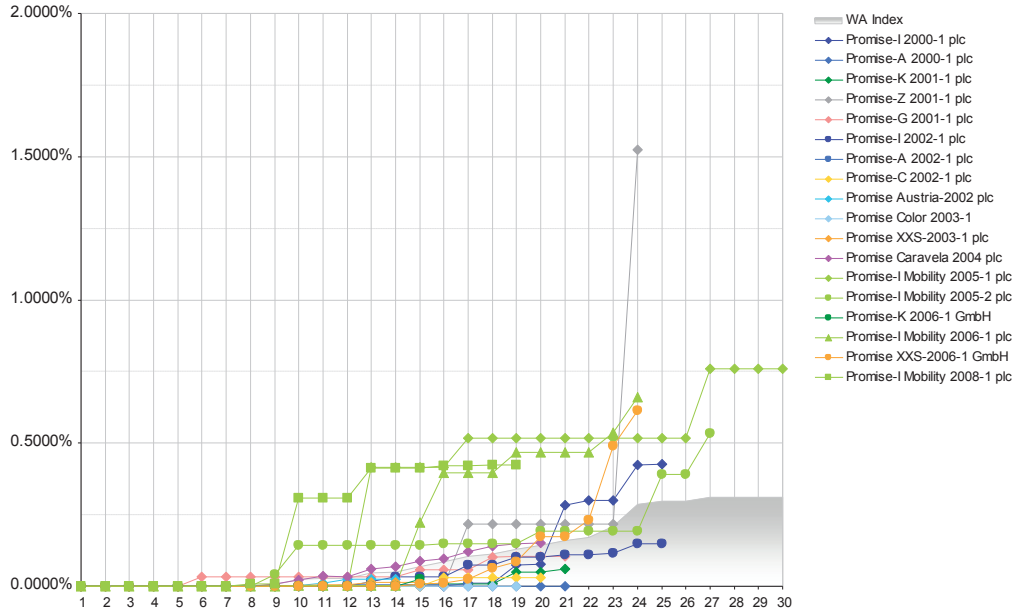
in % of the OB; end-2012



[11] With additional SME CLO transactions by foreign originators amounting to around EUR 10 billion and synthetic RMBS in the PROVIDE series, a total of 69 transactions, representing a volume of EUR 125 billion, have been executed via KfW platforms since 2000.

Cumulated realised portfolio losses of SME CLOs in the PROMISE Series

in % of the OB; end-2012



IV. Plea for introducing a "High Quality Regime"-Approach

It remains to draw attention to the major importance, which is likely to increase in the future, of securitisations as an instrument used to fund the real economy. To fulfil this task, a regulatory framework is needed that contributes to the quality and transparency of the markets and that places as many investors as possible in an unbiased position when weighing up various investment alternatives. The risk weightings arising from the current proposals will have a prohibitive impact for many investors, similar to after the final stage of Solvency II, and force them out of the market.

When viewed from the perspective of financial stability, this effect must be called into question as investors and banks are being deprived of diversification opportunities and unilateral steering. Promotion of individual products will generate knock-on effects such as excessive asset encumbrance, which will be accompanied by high risks for the future of the financial markets.

Owing to the risk weights proposed in the Consultative Document, which also apply to credit facilities in ABCP programmes, the attractiveness of ABCP transactions as a refinancing instrument for corporates, SMEs and leasing companies will be very much reduced as a result of the associated cost increase. As it will be difficult to offset the loss of this source of refinancing for bank customers by

alternative financing instruments, this kind of regulatory change would directly impact the real economy.

Because of the heterogeneity of the securitisation market, we fundamentally consider that to treat all securitisations without differentiation on the basis of a "one size fits all" approach will not be expedient from the perspective of the regulator either. All in all, excesses in individual asset classes that occurred primarily outside Europe would lead to rules that unjustifiably penalise large parts of the overall market, make it unattractive for investors and ABCP sponsor banks and actually stifle it.

In Section V of this Opinion we take specific numerical examples to show the inadequate feasibility and the lack of consistency of the various procedures presented in the Consultative Document, and, as we see it, absolutely disproportionate results, given the outstanding performance of the European securitisation market even during the crisis, as described above. These are clearly out of keeping with the prevailing underlying reality – in Europe – and will lead to an exodus from the ABS-market before they have even been implemented, with lasting damage being done to a fundamentally exceptionally valuable and beneficial instrument. Unilateral regulatory privileging of covered bonds will sooner or later lead to undesirable follow-on effects, which jeopardise financial stability at the system level. As securitisations are the only valid alternative that can be used to complement covered bonds, we urgently advocate the creation of a corresponding regulatory level playing field.

Our analysis in Section V of the approaches presented in the Consultative Document first reveals inadequate practical feasibility as necessary information, such as, in particular, KIRB, is regularly unavailable to the investor or, in the case of ABCP, the sponsor or the application requirements for the MSFA have been drawn too narrowly. Keeping complexity as low as possible and operability as high as possible, particularly with regard to the feasibility for procedures for the trading book, the various approaches should also represent genuinely viable alternatives for the banks. The calibration of the various approaches should lead to consistent results. The results should also be consistant with the capital requirements for the underlying loan portfolios. Not least, the results should, as already stated, appropriately reflect the long-term good quality of European securitisations. To separate the wheat from the chaff with a view to risk and accordingly provide evidence of the differentiated underlying capital requirements, we propose that the various approaches be calibrated using different parameters for the high quality and non-high quality segments.

We would like make it clear that the following forms of securitisation have contributed to low the quality of ABS:

(1) Re-securitisations in the form of CDOn, as they have at best an indirect relation to the real economy and are primarily driven by arbitrage or margin generation and financing aspects doe not play a role. (2) Any kind of arbitrage transactions, even outside re-securitisations, such as (synthetic) CDOs or leveraged loan CLOs, which are at least predominantly driven by arbitrage or margin generation and financing aspects play only a secondary role. (3) Originate-to-

distribute transactions such as older forms of US subprime RMBS, whose basic structure do not allow for any alignment of interests between the originator and the investor. (4) Forms of securitisation with a substantial inherent refinancing risk, as is the case, for example, in many CMBS transactions, as the underlying commercial real estate finance is mostly due on maturity and when the bonds mature, follow-up financing and/or additional capital is required. This makes the repayment of CMBS dependent to a considerable extent on future market conditions that are difficult to forecast.
They shouldn't play a role in a future high quality ABS.

The various approaches of the Basel Committee with regard to the future determination of the risk weightings for securitisation positions are based primarily on structural features of the transactions and on the external rating of the positions. Compared to the current rules, all proposed hierarchies and procedures amount to a marked increase in the risk weightings.

Even if the Committee justifies its proposals on the basis of experience gained of the performance of low quality securitisation exposures during the financial crisis, this global and comprehensive intensification of the capital requirements also for high quality securitisations does not take fair account of the differentiated performance of securitisation transactions during the financial crisis.

Our introductory analysis of the securitisation market over the past few years indicates rather that problematic transactions can be largely restricted to specific market segments and that large parts of the market functioned according to expectations and without disruption even during the crisis.

The need for a fundamental increase in the risk weightings solely on grounds of the prudential classification of a credit risk exposure as securitisation exposure definitely cannot be derived from the market analysis. Rather, alongside the transaction structure of which the Committee has taken account, the decisive feature for the performance of securitisation exposures has proved to be the quality of the securitised portfolio and the origination process.

The proposals of the Committee regarding the revision of the capital requirements for securitisation positions should, in our opinion, therefore be supplemented by a "high quality regime" in the various methodological approaches (MSFA, RRBA, IAA, SSFA, BCRA, etc.). In that regime, high quality exposures should be taken into account together with risk weightings that, unlike in the current rules, remain unchanged. The definition of "high quality" should be integrated as an independent calibration into all methodological approaches to determine the risk weightings of securitisation exposures. In addition, the "high quality regime" should be applied not only to the two hierarchies A and B proposed by the Committee, but also more broadly defined than the "senior high quality" referred to in hierarchy B. The allocation of a position to the "high quality regime" should be based primarily on the assessment of the securitised portfolio.

The actual criteria for allocation to "high quality" should be geared, in particular, to securitised receivables having a close relationship to the real economy, and

to the quality of the collateral as well.

An approach that takes account of quality features of the portfolio as well as the pure transaction structure and the rating in the prudentially relevant internal assessment of a securitisation exposure is not new and has already been put into practice in the institutions by virtue of the implementation of the CRD (Article 122(a) of the CRD II or Section 18 (a) and (b) of the German Banking Act in Germany).

Furthermore, Article 124 of the CRD IV also defines quality features of covered bonds that entail a preferential regulatory treatment of the corresponding products. The criteria referred to by the supervisory authority in that Article draw on the experience of the markets. Also in the LCR definition of the CRD IV high quality RMBS are defined and in the latest version included (see Annex: document Basel III). We support this correct approach and recommend also implementing a "high quality" segment in the various procedures of the new capital regime for securitisation positions.

V. Quantitative analysis and technical criticism of the approaches presented

1. MSFA

Our key remarks on the proposed MSFA are as follows:

- The MSFA appears to have been calibrated too conservatively. For senior tranches, significant credit enhancement is necessary if a risk weight is to be achieved that is lower than the average pool risk weight.
- The effect of the maturity on the risk weight is too strong. For a maturity of five years it leads to overall RWA that is double the capital charge for the pool. For particular tranches with M=5 the resulting risk weight can be up to 8 times the risk weight for M=1.
- The rules for determining M are unclear.
- The proposed procedure for determining the other input parameters (e.g. KIRB) is overly complex and not applicable to a number of positions. In particular, the MSFA will not be applicable to many real economy asset classes such as trade receivables or auto leases.

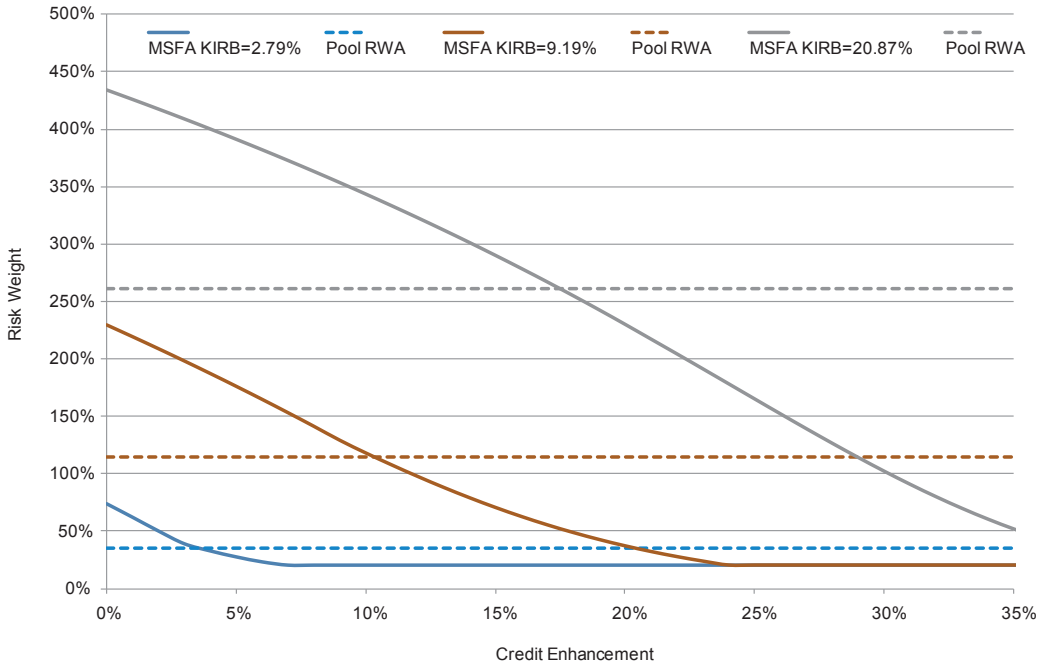
a) Overall calibration of the MSFA

The following graph compares the MSFA senior tranche risk weights to the risk weight of the underlying pool for different levels of KIRB and credit enhancement[12]:

[12] The following parameters were used: M=5, N=100, LGD=45%

Comparison of risk weightings in the senior tranche vs the pool in the MSFA

in %



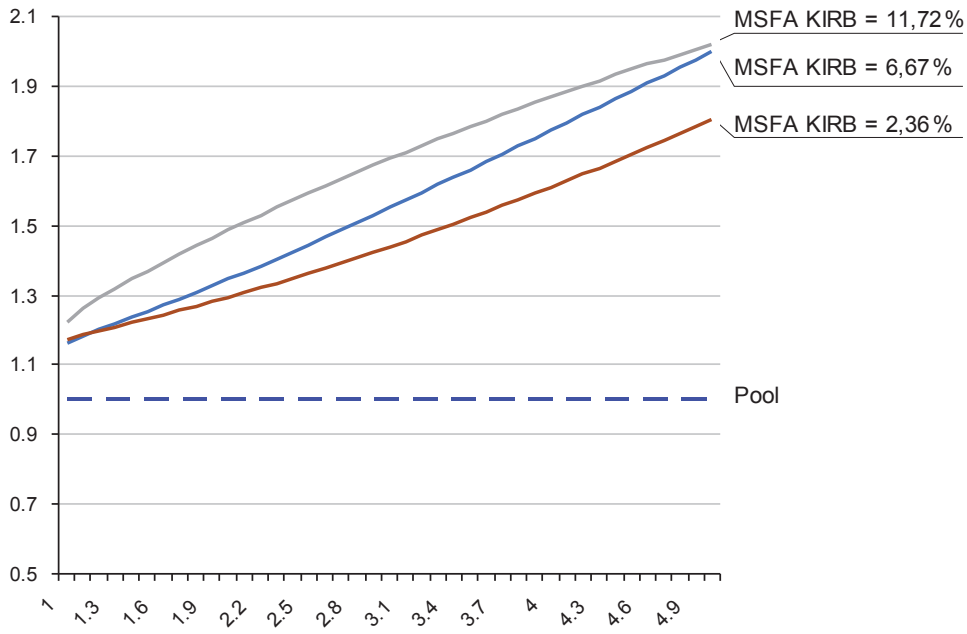
For senior tranches, a substantial amount of credit enhancement would clearly be required to achieve a risk weight for the securitisation exposure that is lower than the underlying pool risk weight. This does not properly reflect the risk mitigation achieved through credit enhancement.

➡ We recommend calibrating the MSFA in such a way that it consistently generates lower risk weights than the underlying pool risk weight, so as to reflect the benefit of credit enhancement.

b) Effect of maturity on resulting capital charges

The following graph shows the effect of a longer maturity on the capital charge generated by the MSFA. For three hypothetical securitised pools, the overall RWAs – i.e. aggregated over all tranches of the securitisations – resulting from the MSFA are compared to the capital charges of the pools if they were not securitised.

Maturity effect within the MSFA as a function of the KIRB

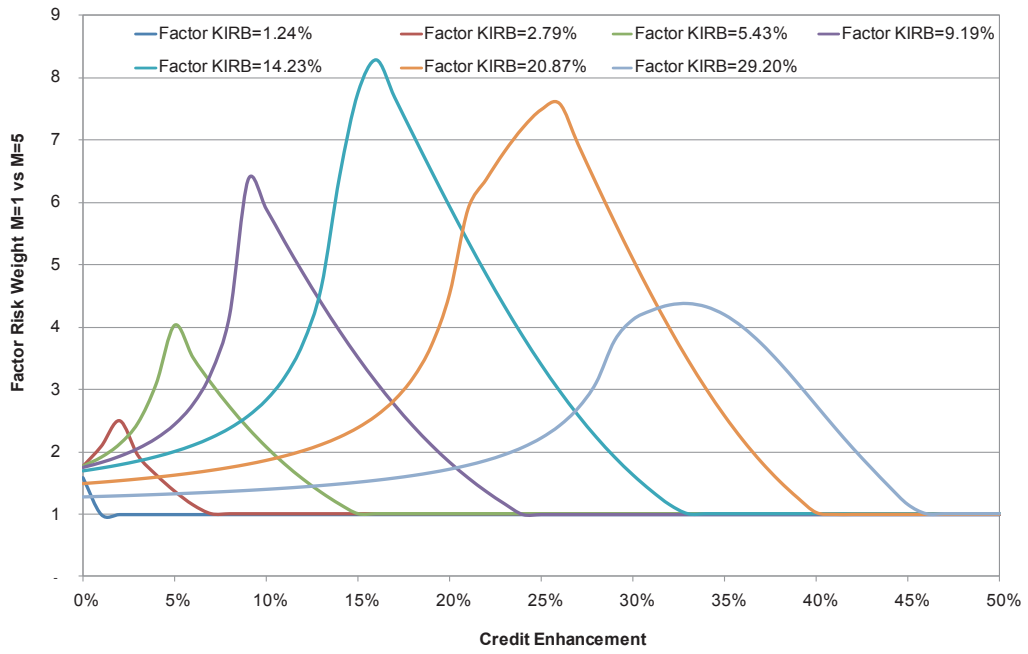


Although they start at a moderately more conservative level, the MSFA risk weights can be seen to rise quickly to much higher capital charges compared to the underlyings. For a maturity of five years this leads to RWAs which would be double the RWAs of the underlying pools if they were not securitised. While the risk weights should understandably be slightly more conservative because of modelling risk, it is surprising for maturity to have such a strong influence. This is particularly puzzling since the maturity of the assets is already incorporated into the underlying pool RWAs, so that the ratio between pool and tranches should at least stay constant for different maturities. Therefore, the additional doubling of the capital charges when the assets are securitised seems to be a double counting of the effect[13].

[13] The Consultative Document and the accompanying technical documentation state that the reason for this conservative calibration is the assumption that excess spread cannot cover the portfolio's multi-year EL. This is inconsistent with the general framework, where the calibration of the maturity adjustment is chosen in such a way as to give limited credit to excess spread. Furthermore, it is not justified by the performance of many securitisation transactions during the crisis. ››

The following figure shows the effect of a longer maturity on the risk weight resulting from the MSFA from a different angle. For different levels of KIRB and credit enhancement, the figure shows the multiple of the risk weight for M=5 vs M=1 [14]:

Maturity effect in the MSFA as a function of the KIRB and credit enhancement



It can be seen that, depending on the level of credit enhancement, maturity can have a massive effect on generated risk weights. For a KIRB of 5.43% – a typical level for a SME transactions – and 6% credit enhancement, the risk weight for M=5 is almost 4 times higher than the risk weight for M=1. In other transaction set-ups the effect can even lead to a multiplier of 8.

➡ We recommend calibrating the influence of maturity in the MSFA in a way that is less strong and more consistent with the wholesale framework

c) Determination of maturity M

Generally, the maturity of each loan is already taken into account via the maturity adjustment within the IRB framework and thereby incorporated into the underlying pool RWA. Therefore, to avoid double counting of effects and a pro-

[13] There are many example transactions which were severely affected during the crisis and for which excess spread was subsequently still sufficient to cover further losses. In order to avoid too high risk charges for transactions with sufficient excess spread, this could be incorporated as an input into the MSFA. Alternatively, parameter sets could be estimated for categories of asset qualities, e.g. high quality and low quality (see Section I).[14] The following parameters were used: M=5, N=100, LGD=45%

hibitively conservative approach, there are strong arguments for completely removing the proposed maturity add-on from the MSFA. If, however, double-counting of the maturity effect of the underlying pool is desired, this should properly reflect the economic maturity of the securitisation exposure. For the use of such an economic measure, the current proposal requires the tranche cash flows to "be unconditional and […] not […] dependent on [sic] the actual performance of the securitised assets". In reality this is almost impossible to achieve for any securitisation, since dependence on the pool performance is a key characteristic of the asset class. For almost all transactions legal maturity of the single asset with the longest legal maturity would therefore have to be used when calculating capital charges.

➡ The relevant maturity should be an economic estimation instead of a purely legal figure with no quantitative meaning. We recommend using the expected weighted average life of the tranche [15].

d) Determination of other parameters

Each IRBA institute must be in a position to make use of the MSFA for their securitisation exposures. The proposed procedure for determining KIRB, LGD, etc. is overly complex and not feasible for most banks or most of the securitisation transactions. This is particularly true for real economy transactions where assets are originated from outside the financial industry, for instance manufacturing companies. In those cases, it is not feasible to adopt a loan-by-loan approach fulfilling the standards of an IRB institute for each underlying assets. In the current proposal for real economy asset classes such as trade receivables or auto leases the MSFA will therefore not be a viable option.

For many other asset classes, the restriction to 100% IRB assets will lead to the exclusion of the MSFA approach.

➡ We recommend providing a framework that allows banks to determine the MSFA input parameters with a top-down approach based on meaningful proxies [16]. Furthermore, the 100% IRB restriction to the underlying pool should be eased.

2. RRBA / IAA

According to Working Paper No 23 "The Proposed Revised Ratings-Based Approach", the RRBA has been calibrated in such a way that the resulting risk weights are more or less equal to the risk weights that would result from the MSFA for the same type of exposure. This also translates to the IAA, which uses the same formulas and tables given for the RRBA to derive its risk weights.

However, this does not seem to be the case. It is not possible for a tranche with a maturity M greater than 1 to achieve a risk weight of 20% in the RRBA, whereas this is possible in the MSFA. To give an example, a very high quality AAA tranche with M=5 would have a 20% risk weight under the MSFA and a 58% risk weight under the RRBA. This seems inconsistent and too harsh a treatment

[15] In order to determine the WAL in a conservative manner, banks could use conservative assumptions (e.g. CPR = 0) for the cash flows of the underlying pool. For revolving transactions, the revolving phase could be added to the expected WAL of the tranche. [16] We thereby explicitly support the proposal raised in No 77 of the BCBS Working Paper No 22. Such proxies could be based, for example, on simulation approaches or the outputs of the IAA rating models

for high quality tranches with a maturity of more than one year.

In addition, the data that were used to calibrate the RRBA are not representative for the securitisation market because it is based on only one sample portfolio[17].

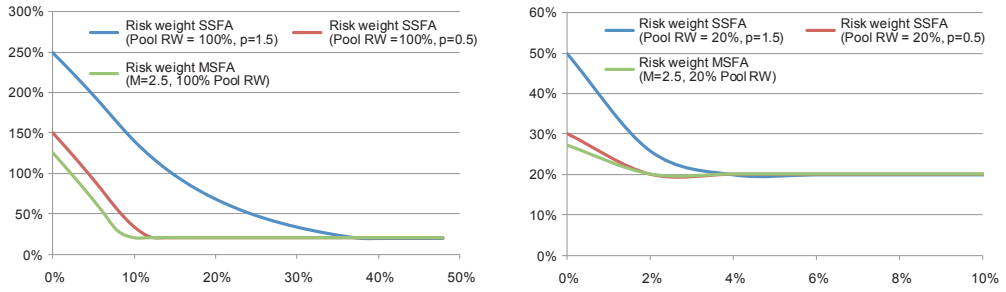
➡ We request that the RRBA and IAA be re-calibrated to meet the regulator's target that the resulting risk weights match those of the MSFA. In particular, it should be possible to achieve the risk weight floor of 20% for M>1 as is possible in the MSFA.

➡ In order to reflect the different characteristics of various asset classes with different risk characteristics and performances in the past, different parameter sets for the RRBA should be estimated for different asset classes. Alternatively, parameter sets could be estimated for categories of asset qualities, e.g. high quality and low quality (see Section I).

3. SSFA

The following graphs compare the risk weights resulting from the MSFA and the SSFA for the same type of exposure and for different levels of p[18]:

Comparison of the risk weightings under the MSFA and the SSFA as a function of p



In particular, for p=1.5 as proposed, the risk weights under the SSFA are much higher than under the MSFA. While we appreciate that under a hierarchical approach, the risk weights should be somewhat higher at a lower hierarchy level, the framework should still be calibrated in such a way that the SSFA remains a feasible alternative for banks that, for practical reasons, cannot use any of the other approaches.

In addition, the SSFA as proposed will in most of the cases lead to a risk weight that is higher than the underlying pool risk weight, as shown in the following example[19]:

- Pool risk weight under the SA: 99.98%

[17] Many real economy trade receivables transactions for SMEs, for example, have either large manufactures as debtors or are structured with credit insurance, which both lead to very low PDs for the underlying assets. For those assets, the PD>4.7% used to calibrate the RRBA is certainly far too high. Similarly, the LGD of 60% is far too high for prime mortgages. In effect, the risk weights are far too high for high quality transactions.

- The tranching is chosen in such a way that in accordance with the metho dology of external rating agencies, a AAA rating for senior and an A+ for the B class can be achieved.

If the new SSFA with p = 1.5 is applied, the senior tranche receives a risk weight of 160%, which is much higher than the pool risk weight and leads to total capital consumption in the senior tranche that is higher than the current SA RWA for the whole pool:

Comparison of the risk weightings under the SSFA, SSFA capped and SSFA US

	AP	DP	RW SSFA	RW SSFA capped	RW SSFA (US: p=0.5)
Class A	8.2%	100%	160.3%	99.9%	51.6%
Class B	5.4%	8.2%	1249.2%	1249.2%	1247.6%
FLP	0.0%	5.4%	1250.0%	1250.0%	1250.0%

The calibration of the SSFA is strongly called in question by the fact that a position with significant credit enhancement has to be capped to the pool risk weight. This is particularly true when compared to the US calibration of the SSFA, which uses a factor of p = 0.5 and risk weights therefore take account of the existent credit enhancement and lead to a risk weight which is significantly lower than the pool. Our analysis also indicates that for a senior position to receive a risk weight at least slightly lower than the pool, at least 15% of credit enhancement have to be in place. This is almost double the amount required by rating agencies for a AAA scenario.

➡ We therefore recommend setting p to a value of 0.5. We also propose that the SSFA be used as an alternative to the IAA/RRBA at the choice of each individual bank (if MSFA/RRBA/IAA cannot be applied), as opposed to enforcing choice by a given jurisdiction.

[18] For this purpose, we have assumed that the underlying pool would produce the same RWA under both the standardised approach (SA) and IRBA. We have also assumed w=0. [19] This example is based on a real transaction issued by Volkswagen. VW auto lease ABS transactions date back as far as1996 and have always performed well, even during the crisis. The transaction is a good example of how securitisation is used by the real industry for attaining capital at attractive price levels and how the new proposal will affect these industries. The pool mainly consists of leases against unrated corporates (SMEs) with a small portion of retail exposures.

Annex 1: Literature and sources

Oct 2010 European Investment Fund

» **SME Loan Securitisation: An important tool to support European SME lending**

2012/15 European Investment Fund

» **The importance of leasing for SME finance**

Dec 2012 European Investment Fund

» **"European Small Business Finance Outlook"**

Feb 2013 Commerzbank

» **Covered Bond Telegram**

Apr 2012 International Monetary Fund

» **Global Financial Stability Report: The Quest for Lasting Stability**

Jul 2012 BaFin

» **Asset-Encumbrance: What will happen to unsecured bank bonds? Dr Steffen Meusel, BaFin**

Feb 2013 European Securities and Markets Authority

» **Trends Risks Vulnerabilities**

Dec 2012 ESRB

» **Annex to the recommendation on funding of credit institutions**

» **Recommendation of the European Systemic Risk Board**

Aug 2012 Standard & Poor's

» **Five Years On, The European Structured Finance Cumulative Default Rate Is Only 1.1%**

Feb 2013 Moody's

» **Global Structured Finance Collateral Performance Review**

Oct 2012 Fitch Ratings

» **Special report: Global Structured Finance Losses**

Jan 2013 DZ BANK

» **ABS & Structured Credits – Driver Ten**

Jan 2013 Basel Committee on Banking Supervision

» **Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools**

Februar 2013 Group of Thirty

» **Long-term Finance and Economic Growth**

Januar 2013 DZ BANK

» **ABS & Structured Credits - Driver Ten**

TSI – What we do

Securitisation in Germany and TSI – the two belong together. True Sale International GmbH (TSI) was set up in 2004 as an initiative of the German securitisation industry with the aim of promoting the German securitisation market.

In the last nine years TSI has strongly supported the development of the German securitisation market. Its concern has always been to give banks an opportunity to securitise loans under German law on the basis of a standardised procedure agreed with all market participants. Another objective is to establish a brand for German securitisation transactions which sets a high standard in terms of transparency, investor information and market making. And finally the goal is to create a platform for the German securitisation industry and its concerns and to bridge the gap to politics and industry.

Nowadays TSI Partners come from all areas of the German securitisation market – banks, consulting firms and service providers, law firms, rating agencies and business associations. They all have substantial expertise and experience in connection with the securitisation market and share a common interest in developing this market further. TSI Partners derive particular benefit from TSI's lobbying work and its PR activities.

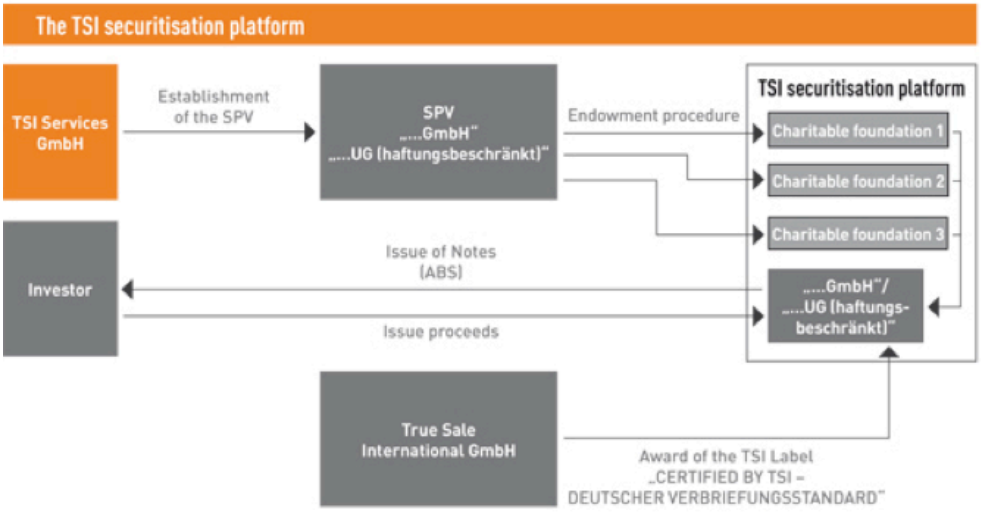
TSI securitisation platform

TSI has been providing special purpose vehicles (SPVs) under German law since 2005. In far more than 80 transactions (as of February 2013), German and other originators have already taken advantage of German SPVs as part of the securitisation process.

The TSI securitisation platform comprises three charitable foundations, which become shareholders in the SPVs set up by TSI. The charitable foundations provide support for academic work in the following fields:

- Capital market research for Germany as a financial centre
- Capital market law for Germany as a financial centre
- Corporate finance for Germany as a financial centre

The three charitable foundations are committed to promoting scholarship and science with a focus on capital market and corporate finance topics.



CERTIFIED BY TSI – DEUTSCHER VERBRIEFUNGSSTANDARD

The high quality of German securitisation transactions reflects the high quality of the standards applied to lending and loan processing.

The brand label DEUTSCHER VERBRIEFUNGSSTANDARD is founded on clearly defined rules for transparency, disclosure, lending and loan processing. Detailed guidelines and samples for investor reporting ensure high transparency for investors and the Originator guarantees, by means of a declaration of undertaking, the application of clear rules for lending and loan processing as well as for sales and back office incentive systems. The offering circular, the declaration of undertaking and all investor reports are publicly available on the TSI website, thus ensuring free access to relevant information.

Events and Congress of TSI

Events of TSI provide opportunities for specialists in the fields of economics and politics to discuss current topics relating to the credit and securitisation markets. The TSI Congress in Berlin is the annual meeting place for securitisation experts and specialists from the credit and loan portfolio management, risk management, law, trade and treasury departments at banks, experts from law

firms, auditing companies, rating agencies, service providers, consulting companies and investors from Germany and other countries. Many representatives of German business and politics and academics working in this field take advantage of the TSI Congress to exchange professional views and experience. As a venue, Berlin is at the pulse of German politics and encourages an exchange between the financial market and the world of politics.