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SOUTH AFRICAN RESERVE BANK

Prudential Authority

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To: All banks, branches of foreign institutions, controlling companies, eligible institutions and auditors of banks or controlling companies

Proposed Directive issued in terms of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990)

Matters related to the criteria for identifying simple, transparent and comparable term and short-term securitisations

Executive summary

A key objective of prudential regulation and supervision of financial institutions is to achieve a stable financial system that works in the interest of financial customers and that supports balanced and sustainable economic growth. As such, the Prudential Authority (PA) endeavours to ensure that the legal framework for the regulation and supervision of financial institutions, as a minimum, remains relevant and current.

Securitisation, like other forms of financial innovation, has costs and benefits associated with it. While securitisation is an important component to well-functioning financial markets, the potential benefits of securitisation need to be weighed against the potential downside risks to the financial system and financial stability, which can arise from sub-optimally functioning securitisation markets. The global financial crisis highlighted that securitisations can represent a source of risk attributable to complex and opaque securitisation structures, weak underwriting and poor governance arrangements.

In this regard, the Basel Committee on Banking Supervision (Basel Committee) has issued revisions to the securitisation framework as part of its broader Basel III agenda to reform the regulatory standards for banks in response to the global financial crisis. The framework is aimed at addressing a number of shortcomings in the Basel II securitisation framework and at strengthening the capital standards for securitisation exposures held in the banking book. The Basel Committee has also developed and issued criteria to identify and assist the financial industry's development of simple, transparent and comparable (STC) term and short-term securitisations, together with an alternative capital treatment for STC securitisations. The purpose of the STC criteria and associated regulatory capital treatment is to assist the financial industry in its development of simple and transparent securitisation structures. The STC criteria have therefore not been incorporated into the Regulations relating to Banks (Regulations) as the STC criteria are intended to help transaction parties – including originators, investors and other parties with a fiduciary responsibility – evaluate more thoroughly the risk and returns of a particular securitisation. The STC criteria are intended to enable a more straightforward comparison across securitisation products within an asset class.

This proposed directive serves to direct banks, controlling companies, branches of foreign institutions, controlling companies, eligible institutions and auditors of banks or controlling companies (hereinafter collectively referred to as ‘banks’) that (i) in order to qualify as a STC compliant securitisation, such term or short-term securitisation structure must meet all of the STC criteria as set out in Annexure A or Annexure B, as applicable and (ii) in order to qualify for the differentiated regulatory capital treatment as set out in the Regulations, the term or short-term securitisation must also meet the additional criteria for capital purposes as set out in Annexure A or Annexure B, respectively.

1. Introduction

- 1.1 A key objective of prudential regulation and supervision of financial institutions is to achieve a stable financial system that works in the interests of financial customers and that supports balanced and sustainable economic growth. In order to create and promote an environment in which the key objectives related to prudential regulation and supervision of financial institutions can be achieved, it is critically important to ensure that the legal framework for the regulation and supervision of financial institutions, as a minimum, remains relevant and current.
- 1.2 Securitisation, like other forms of financial innovation, has costs and benefits associated with it. Securitisations are an important component to well-functioning financial markets as they contribute to diversifying the funding and risk diversification avenues of banks and releasing regulatory capital, which can then be allocated to support further lending. Securitisation can help issuers and investors diversify and transfer risk across different asset classes, geographical locations or industries. By transforming a pool of illiquid assets into tradable securities, securitisation also constitutes a potentially valuable tool for assisting with the advancement of credit to borrowers. However, the potential benefits of securitisation need to be weighed against the potential downside risks to the financial system and financial stability, which can arise from sub-optimally functioning securitisation markets.
- 1.3 An important lesson from the global financial crisis was that the securitisation structure itself can represent a source of risk: complex and opaque securitisation structures may render it unfeasible for some investors to understand the cash flow-generating mechanism and the source of future disruptions to such cash-flows. The financial crisis further highlighted that even simple and transparent securitisations could perform poorly if the underlying assets were subject to weak underwriting and poor governance. Therefore, investors need to carry out a careful risk assessment of securitisation structures, including their own evaluation of the credit quality of the underlying assets.

2. Background

- 2.1 The Basel Committee has issued revisions to the securitisation framework as part of the Basel Committee’s broader Basel III agenda to reform the regulatory standards for banks in response to the global financial crisis in order to contribute to a more resilient banking sector. The revised securitisation framework is aimed at addressing a number of shortcomings in the Basel II securitisation framework and strengthening the capital standards for securitisation exposures held in the banking book. In 2014, the Basel Committee on Banking Supervision (Basel Committee) and the International Organization of Securities Commissions (IOSCO) established

a joint Task Force on Securitisation Markets (TFSM) to review the developments in securitisation markets.

- 2.2 The TFSM was directed to (i) identify the factors that may be hindering the development of sustainable securitisation markets and (ii) develop criteria to identify and assist in the financial industry's development of simple and transparent securitisation structures.
- 2.3 In July 2015, the Basel Committee and IOSCO issued the final 14 criteria for identifying "simple, transparent and comparable" (STC) securitisations (2015 STC Criteria). The 2015 STC Criteria explicitly excluded short-term securitisation structures (specifically asset-backed commercial paper (ABCP) securitisation structures) from its scope.
- 2.4 The Basel Committee subsequently considered how to incorporate STC-compliant term securitisations into the final capital standard for securitisation transactions. Accordingly, in July 2016 the Basel Committee and IOSCO issued revisions to the securitisation framework that incorporated the regulatory capital treatment of STC term securitisation (2016 STC Criteria), together with an expanded set of criteria which included suggested additional clarifications and enhancements to the 2015 STC Criteria. In addition, the 2016 STC Criteria expanded the initial STC criteria for term securitisations to include additional requirements that must be satisfied in order for a securitisation that satisfies the 14 STC criteria to apply the alternative regulatory capital treatment for STC securitisations.
- 2.5 The 2015 STC Criteria and the 2016 STC Criteria had explicitly scoped out short-term securitisations and more specifically, asset-backed commercial paper (ABCP) structures. The exclusion of short-term securitisation structures took into account the difference in structure between ABCP programmes and term securitisations. However, the Basel Committee and IOSCO indicated that further work would be carried out to consider whether, and how, the STC criteria for short-term securitisations should be determined and incorporated into the revised securitisation framework.
- 2.6 Accordingly on 14 May 2018, the Basel Committee and IOSCO issued the Criteria for identifying simple, transparent and comparable short-term securitisations (2018 STC Criteria). The 2018 STC criteria maintain and build on the principles in the 2015 STC Criteria for term securitisations, taking into account the characteristics of ABCP. On the same day, the Basel Committee and IOSCO also issued the Capital treatment for short-term simple, transparent and comparable securitisations (2018 Capital treatment for STCs) outlining how the short-term STC Criteria could be incorporated into the alternative capital treatment for STC securitisations. One of the main amendments made to the 2015 STC criteria was to split the criteria for

short-term securitisations into the following two categories to reflect the two levels of stakeholders relevant in ABCP conduits:

- (i) the sellers, who are typically the original lenders and, potentially, servicers of the underlying assets; and
- (ii) the sponsor, who establishes or manages an ABCP conduit, and plays an essential fiduciary role in ensuring the quality of the underlying transactions and pools of assets financed by the ABCP conduit.

3. Objectives of STC securitisations

- 3.1 The STC framework is applicable to traditional securitisations and exposures to ABCP conduits and exposures to transactions financed by ABCP conduits. A securitisation with lower structural risk needs a lower capital surcharge than a securitisation with higher structural risk; and a securitisation with less risky underlying assets requires a lower capital surcharge than a securitisation with riskier underlying assets.
- 3.2 The STC criteria are intended to help transaction parties – including originators/sponsors, investors and other parties with a fiduciary responsibility – evaluate more thoroughly the risks and returns of a particular securitisation and to enable a more straightforward comparison across securitisation products within an asset class. The STC criteria are non-exhaustive and non-binding and do not serve as a substitute for investor due diligence. The STC criteria should assist investors in undertaking their due diligence on securitisations and further assist investors and supervisors to assess the risk of securitisation exposures by fostering simplicity in the underlying assets and the structures of securitisations meeting the STC criteria.
- 3.3 By improving transparency, the STC criteria may help provide investors throughout the life of the transaction with greater access to comprehensive and reliable information about the securitisation structure and the underlying assets' characteristics and performance. By incentivising a greater comparability for certain elements of securitisation transactions, the STC criteria could lower investors' hurdle for assessing securitisation risks.

4. STC criteria for regulatory capital treatment

- 4.1 STC securitisations qualifying for differentiated regulatory capital treatment meet the STC criteria, including the additional criteria for capital purposes, as set out Annexure A in respect of term securitisations or Annexure B in respect of short-term securitisations.

5. Directive

- 5.1 In accordance with the provisions of section 6(6) of the Banks Act, banks are hereby directed as follows:
 - 5.1.1 traditional term securitisations (i.e. non-ABCP structures), qualify as an STC-compliant securitisation if it meets all of the STC criteria as set out in Annexure A;
 - 5.1.2 banks acting as an originator / sponsor must disclose all necessary information to allow investors to determine whether the securitisation is STC compliant in terms of the Annexure A or Annexure B, as applicable;
 - 5.1.3 exposures to term or short-term securitisations that are compliant with the STC Criteria as set out in Annexure A or Annexure B, including the additional criteria for capital purposes as set out therein, will be subject to the alternative capital treatment as set out in the Regulations;
 - 5.1.4 banks acting as investors must make their own assessment of the securitisation's compliance with the STC criteria as set out in Annexure A or Annexure B, as applicable, before applying the alternative capital treatment for STC securitisations as set out in the Regulations;
- 5.2 In respect of short-term securitisation, banks are in accordance with the provisions of section 6(6) of the Banks Act, 1990 (Act No. 94 1990) hereby directed as follows –
 - 5.2.1 for a bank's exposure at the conduit level (for example, in respect of exposures arising from investing in the commercial paper issued by the ABCP programme or sponsoring arrangements at the conduit level/programme level), the short-term STC capital criteria as set out in Annexure B have to be complied with fully both at the conduit level and the transaction level;
 - 5.2.2 for a bank's exposure at the transaction level to qualify for STC alternative capital treatment, compliance with the transaction-level criteria as set out in Annexure B is sufficient (i.e. independently of whether the overall conduit/other transactions underlying the conduit qualified);
 - 5.2.3 for purposes of determining compliance with the short-term STC capital criteria as set out in Annexure B, a bank must disclose to investors and relevant parties the necessary information to allow them to determine whether the exposure is compliant with the short-term STC capital criteria;
 - 5.2.4 for notes issued by the ABCP conduit, the assessment of compliance with the short-term STC capital criteria as set out in Annexure B is performed by the investor only; and
 - 5.2.5 for other exposures to an ABCP structure, in the case of a sponsor's exposure to an ABCP structure, only the main sponsor would need to assess that the criteria have been met.

6. Invitation for comment

- 6.1 In accordance with section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990), all interested persons are hereby invited to submit their comments on this proposed directive, including Annexure A and Annexure B, and the proposed implementation date of 1 July 2022 to: SARB-PA@resbank.co.za, for the attention of Ms V Rooplall, by no later than 16 May 2022.
- 6.2 All comments received will be published on the website of the Prudential Authority, unless a respondent specifically requests confidential treatment.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 20/04/22

Criteria for identifying simple, transparent and comparable term securitisations:

- (a) In order to satisfy the simple, transparent and comparable (STC) criteria as set out in this Annexure, a securitisation structure must possess a level of simplicity, transparency and comparability that could assist market participants in evaluating the risks of a securitisation transaction.
- (b) For purposes of determining whether a securitisation is simple, transparent and comparable (STC) –
 - “**simplicity**” refers to the homogeneity of underlying assets with simple characteristics, and a transaction structure that is not overly complex;
 - “**transparency**” relates to the criteria to provide investors with sufficient information on the underlying assets, the structure of the transaction and the parties involved in the transaction, thereby promoting a more comprehensive and thorough understanding of the risks involved. The manner in which the information is available should not hinder transparency, but instead support investors in their assessment;
 - “**comparability**” means that the criteria promoting comparability could assist investors in their understanding of such investments and enable more straightforward comparison across securitisation products within an asset class. Importantly, they should appropriately take into account differences across jurisdictions; and
 - “**STC compliant**” means a securitisation that complies with the criteria for identifying STC securitisation and the STC criteria for regulatory capital purposes as set out in this Annexure.
- (c) It is the responsibility of the investor to assess whether a securitisation complies with the STC criteria as set out in this Annexure for purposes of determining the regulatory capital treatment applicable to the investor’s holding in the securitisation structure;
- (d) It is the responsibility of the originators to disclose sufficient information to investors to allow investors to perform the assessment of whether a securitisation is STC compliant;
- (e) An originator would be liable in the event of any misrepresentation or the disclosure of inaccurate information to an investor; and
- (f) The criteria as set out in this Annexure is not intended to serve as a substitute for investors’ due diligence but rather to identify and assist in the financial industry’s development of simple and transparent securitisation structures.

Criteria for identifying STC term securitisations

(1) Design of STC Criteria for term securitisations

- (a) In order to allow market participants to assess whether a term securitisation is STC compliant to assist market participants in evaluating the risks of a securitisation

transactions, the STC criteria are mapped to the key types of risk in the securitisation process as follows –

- (i) the underlying asset pool (asset risk) in the securitisation structure as set out in paragraph (2) below;
- (ii) transparency around the securitisation structure (structural risk) as set out in paragraph (3) below; and
- (iii) governance of key parties in the securitisation process (fiduciary and servicer risk) as set out in paragraph (4) below.

(2) Asset risk

- (a) The STC criteria relating to the asset risk includes generic criteria in relation to the underlying asset pool in the securitisation and does not address the ultimate credit risk of the underlying securitisation pools.

Nature of the assets

- (b) In STC securitisations –

- (i) the assets underlying the securitisation should be credit claims or receivables that are homogeneous, having regard to asset type, jurisdiction, legal system and currency.
 - (ii) as more exotic asset classes require more complex and deeper analysis, credit claims or receivables must have contractually identified periodic payment streams relating to rental, principal, interest, or principal and interest payments, where payments on operating and financing leases are typically considered to be rental payments rather than payments of principal and interest.
 - (iii) any referenced interest payments or discount rates should be based on commonly encountered market interest rates, which may include rates reflective of a lender's costs of funds to the extent that sufficient data is provided to investors to allow them to assess their relation to other market rates, but should not reference complex or complicated formulae or exotic derivatives.
- (c) For capital purposes, this criterion should be assessed taking into account the following principles:
 - (i) the nature of assets should be such that investors would not need to analyse and assess materially different legal and/or credit risk factors and risk profiles when carrying out risk analysis and due diligence checks;
 - (ii) homogeneity should be assessed on the basis of common risk drivers, including similar risk factors and risk profiles;
 - (iii) credit claims or receivables included in the securitisation should have standard obligations, in terms of rights to payments and/or income from assets and that result in a periodic and well-defined stream of payments to investors. Credit card facilities should be deemed to result in a periodic and well-defined stream of payments to investors for the purposes of this criterion;
 - (iv) repayment of noteholders should mainly rely on the principal and interest proceeds from the securitised assets. Partial reliance on refinancing or re-sale of the asset securing the exposure may occur provided that re-financing is sufficiently distributed within the pool and the residual values on which the transaction relies are sufficiently low and that the reliance on refinancing is thus not substantial;
 - (v) commonly encountered market interest rates would include:

- (A) interbank rates and rates set by monetary policy authorities, such as local benchmark rates; and
- (B) sectoral rates reflective of a lender's cost of funds, such as internal interest rates that directly reflect the market costs of a bank's funding or that of a subset of institutions;
- (vi) Interest rate caps and/or floors would not automatically be considered exotic derivatives.

Asset performance history

- (a) In order to allow an investor to conduct the appropriate due diligence on an asset class the following must be made available to investors / market participants –
 - (i) sufficient information on an asset class;
 - (ii) access to a sufficiently rich data set to enable a more accurate calculation of expected loss in different stress scenarios must be given to investors;
 - (iii) investors must have access to verifiable loss performance data such as delinquency and default data for credit claims and receivables with substantially similar risk characteristics to those being securitised, for a time period long enough to permit meaningful evaluation by investors; and
 - (iv) disclosures on the sources of, and access to data, and the basis for claiming similarity to credit claims or receivables being securitised.
- (b) In addition to the history of the asset class within a jurisdiction, investors should consider whether the originator, sponsor, servicer and other parties with a fiduciary responsibility to the securitisation have an established performance history for substantially similar credit claims or receivables to those being securitised and for an appropriately long period of time.
- (c) The originator/sponsor of the securitisation, as well as the original lender who underwrites the assets, must have sufficient experience in originating exposures similar to those securitised.
- (d) For capital purposes, investors must determine whether the performance history of the originator and the original lender for substantially similar claims or receivables to those being securitised has been established for an "appropriately long period of time". This performance history must be no shorter than a period of seven years for non-retail exposures. For retail exposures, the minimum performance history is five years.

Payment status

- (a) In order to ensure that only performing credit claims and receivables are assigned to a securitisation, credit claims or receivables being transferred to the securitisation, may not at the time of inclusion in the pool –
 - (i) include obligations that are in default or delinquent; or
 - (i) obligations for which the transferor (for example, the originator or sponsor) or parties to the securitisation (for example, the servicer or a party with a fiduciary responsibility) are aware of evidence indicating a material increase in expected losses or of enforcement actions.

- (b) To prevent credit claims or receivables arising from credit-impaired borrowers from being transferred to the securitisation, the originator or sponsor should verify that the credit claims or receivables meet the following conditions:
 - (i) the risk criteria for selection should be disclosed;
 - (ii) the obligor has not been the subject of an insolvency or debt restructuring process due to financial difficulties within three years prior to the date of origination;
 - (iii) the obligor is not recorded on a public credit registry of persons with an adverse credit history;
 - (iv) the obligor does not have a credit assessment by an ECAI or a credit score indicating a significant risk of default; and
 - (v) the credit claim or receivable is not subject to a dispute between the obligor and the original lender.
- (c) The assessment of the conditions outlined in paragraph (b) above should be carried out by the originator or sponsor no earlier than 45 days prior to the closing date¹. Additionally, at the time of this assessment, there should, to the best knowledge of the originator or sponsor, be no evidence indicating likely deterioration in the performance status of the credit claim or receivable.
- (d) In addition, at the time of their inclusion in the pool, at least one payment should have been made on the underlying exposures, except in the case of revolving asset trust structures such as those for credit card receivables, trade receivables, and other exposures payable in a single instalment, at maturity.

Consistency of underwriting

- (a) Investor analysis should be simpler and more straightforward where the securitisation is of credit claims or receivables that satisfy materially non-deteriorating origination standards.
- (b) In order to ensure that the quality of the securitised credit claims and receivables is not affected by changes in underwriting standards –
 - (i) the originator should demonstrate² to investors³ that any credit claims or receivables being transferred to the securitisation have been originated in the ordinary course of the originator's business to materially non-deteriorating underwriting standards; and
 - (ii) the credit claims or receivables transferred to the securitisation must have satisfied materially non-deteriorating underwriting criteria and for which the obligors have been assessed as having the ability and volition to make timely payments on obligations; or on granular pools of obligors, originated in the ordinary course of the originator's business where expected cash flows have been modelled to meet stated obligations of the securitisation under prudently stressed loan loss scenarios.
- (c) In circumstances where the underwriting standards change, the originator should disclose the timing and purpose of such changes to the investors.

¹ The closing date is the same as the transfer date.

² The investor should be provided with the lending criteria and confirmation that the loan(s) meet these criteria.

³ Applies to all structures (i.e. not limited to replenishment clauses)

- (d) The underwriting standards should not be less stringent than those applied to credit claims and receivables retained on the balance sheet.
- (e) In all circumstances, all credit claims or receivables must be originated in accordance with sound and prudent underwriting criteria based on an assessment that the obligor has the “ability and volition to make timely payments” on its obligations.
- (f) The originator/sponsor of the securitisation is expected, where underlying credit claims or receivables have been acquired from third parties, to review the underwriting standards, that is, to check their existence and assess the quality of these third parties and to ascertain that they have assessed the obligors’ “ability and volition to make timely payments on obligations”.

Asset selection and transfer

- (a) Notwithstanding that the credit claims or receivables transferred to a securitisation will be subject to defined criteria,⁴ the performance of the securitisation should not rely upon the ongoing selection of assets through active management on a discretionary basis of the securitisation’s underlying portfolio. Where assets are replaced, they should be similar to the current assets.
- (b) Credit claims or receivables transferred to a securitisation –
 - (i) should satisfy clearly defined eligibility criteria;
 - (ii) after the closing date may not be actively selected, actively managed or otherwise cherry-picked on a discretionary basis.
- (c) Investors should be able to assess the credit risk of the asset pool prior to their investment decisions.
- (d) In order to meet the principle of true sale, the securitisation should effect true sale such that the underlying credit claims or receivables –
 - (i) are enforceable against the obligor and their enforceability is included in the representations and warranties of the securitisation;
 - (ii) are beyond the reach of the seller, its creditors or liquidators and are not subject to material re-characterisation or clawback risks;
 - (iii) are not effected through credit default swaps, derivatives or guarantees, but by a transfer of the credit claims or the receivables to the securitisation; and
 - (iv) demonstrate effective recourse to the ultimate obligation for the underlying credit claims or receivables and are not a securitisation of other securitisations.
- (e) The originator must provide representations and warranties that the credit claims or receivables being transferred to the securitisation are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due.
- (f) An independent third-party legal opinion must support the claim that the true sale and the transfer of assets under the applicable laws comply with subparagraphs (i) to (iv) in paragraph (d) above.

⁴ For example, the size of the obligation; the age of the borrower or the loan-to-value of the property; the debt-to-income and/or the debt-service-coverage ratios.

Initial and ongoing data

- (a) To assist investors –
 - (i) in conducting appropriate due diligence prior to investing in a new offering sufficient loan-level data in accordance with applicable laws or, in the case of granular pools, summary stratification data on the relevant risk characteristics of the underlying pool should be available to potential investors before the pricing of a securitisation.
 - (ii) in conducting appropriate and ongoing monitoring of their investments' performance, such that investors that wish to purchase a securitisation in the secondary market have sufficient information to conduct appropriate due diligence –
- (A) timely loan-level data in accordance with applicable laws or granular pool stratification data on the risk characteristics of the underlying pool and standardised investor reports should be readily available to current and potential investors at least quarterly throughout the life of the securitisation;
- (B) cut-off dates of the loan-level or granular pool stratification data should be aligned with those used for investor reporting.
- (b) To provide a level of assurance that the reporting of the underlying credit claims or receivables is accurate and that the underlying credit claims or receivables meet the eligibility requirements, the initial portfolio should be reviewed for conformity with the eligibility requirements by an appropriate legally accountable and independent third party, such as an independent accounting practice or the calculation agent or management company for the securitisation.

(3) Structural Risk

Redemption cash flows

- (a) Liabilities subject to the refinancing risk of the underlying credit claims or receivables are likely to require more complex and heightened analysis.
- (b) To help ensure that the underlying credit claims or receivables do not need to be refinanced over a short period of time, there should not be a reliance on the sale or refinancing of the underlying credit claims or receivables in order to repay the liabilities, unless the underlying pool of credit claims or receivables is sufficiently granular and has sufficiently distributed repayment profiles. Rights to receive income from the assets specified to support redemption payments, for example, associated savings plans designed to repay the principal at maturity, should be considered as eligible credit claims or receivables in this regard.

Currency and interest rate asset and liability mismatches

- (a) In order to reduce the payment risk arising from the different interest rate and currency profiles of assets and liabilities and to improve investors' ability to model cash flows, interest rate and foreign currency risks should be appropriately mitigated at all times, and –
- (i) the reference to "appropriately mitigated" in this context does not necessarily require a matching hedge as the appropriateness of hedging through the life of the transaction should be demonstrated and disclosed on a continuous basis to investors;

- (ii) if any hedging transaction is executed the transaction should be documented according to industry-standard master agreements;
 - (iii) only derivatives used for genuine hedging of asset and liability mismatches of interest rate and / or currency should be allowed.
- (b) For capital purposes –
- (i) the reference to “appropriately mitigated” should be understood as not necessarily requiring a completely perfect hedge as the appropriateness of the mitigation of interest rate and foreign currency through the life of the transaction must be demonstrated by making available to potential investors, in a timely and regular manner, the quantitative information including the fraction of notional amounts that are hedged as well as sensitivity analysis that illustrates the effectiveness of the hedge under extreme but plausible scenarios;
 - (ii) if hedges are not performed through derivatives, then those risk-mitigating measures are only permitted if they are specifically created and used for the purpose of hedging an individual and specific risk, and not multiple risks at the same time. Non-derivative risk mitigation measures must be fully funded and available at all times.

Payment priorities and observability

- (a) To prevent investors from being subjected to unexpected repayment profiles during the life of a securitisation, the priorities of payments for all liabilities in all circumstances should be clearly defined at the time of securitisation and appropriate legal comfort regarding their enforceability should be provided.
- (b) In order to ensure that junior note holders do not have inappropriate payment preference over senior note holders that are due and payable, throughout the life of securitisation, or, where there are multiple securitisations backed by the same pool of credit claims or receivables, throughout the life of the securitisation programme, junior liabilities should not have payment preference over senior liabilities which are due and payable. In this regard, the securitisation should not be structured as a “reverse” cash flow waterfall such that junior liabilities are paid where due and payable senior liabilities have not been paid.
- (c) In order to provide investors with full transparency over any changes to the cash flow waterfall, payment profile or priority of payments that might affect a securitisation, all triggers affecting the cash flow waterfall, payment profile or priority of payments of the securitisation should be clearly and fully disclosed both in offering documents and in investor reports, with information in the investor report that clearly identifies the breach status, the ability for the breach to be reversed and the consequences of the breach.
- (d) Investor reports must contain information that allows investors to monitor the evolution over time of the indicators that are subject to triggers and any triggers breached between payment dates should be disclosed to investors on a timely basis in accordance with the terms and conditions of all underlying transaction documents.
- (e) Securitisations featuring a revolving period should include provisions for appropriate early amortisation events and/or triggers of termination of the revolving period, including:
 - (i) deterioration in the credit quality of the underlying exposures;

- (ii) a failure to acquire sufficient new underlying exposures of similar credit quality; and
 - (iii) the occurrence of an insolvency-related event with regard to the originator or the servicer.
- (f) Following the occurrence of a performance-related trigger, an event of default or an acceleration event, the securitisation positions should be repaid in accordance with a sequential amortisation priority of payments, in order of tranche seniority, and there should not be provisions requiring immediate liquidation of the underlying assets at market value.
 - (g) To assist investors in their ability to appropriately model the cash flow waterfall of the securitisation, the originator or sponsor should make available to investors, both before the pricing of the securitisation and on an ongoing basis, a liability cash flow model or information on the cash flow provisions allowing appropriate modelling of the securitisation cash flow waterfall.
 - (h) To ensure that debt forgiveness, forbearance, payment holidays and other asset performance remedies can be clearly identified, policies and procedures, definitions, remedies and actions relating to delinquency, default or restructuring of underlying debtors should be provided in clear and consistent terms, such that investors can clearly identify debt forgiveness, forbearance, payment holidays, restructuring and other asset performance remedies on an ongoing basis.

Voting and enforcement rights

- (a) To help ensure clarity for securitisation noteholders of their rights and ability to control and enforce on the underlying credit claims or receivables, upon the insolvency of the originator or sponsor, all voting and enforcement rights related to the credit claims or receivables should be transferred to the securitisation and the investors' rights in the securitisation should be clearly defined in all circumstances, including the rights of senior versus junior noteholders.

Documentation disclosure and legal review

- (a) To help investors to fully understand the terms, conditions, legal and commercial information prior to investing in a new offering and to ensure that this information is set out in a clear and effective manner for all programmes and offerings –
 - (i) sufficient initial offering and draft underlying documentation should be made available to investors (and readily available to potential investors on a continuous basis) within a reasonably sufficient period of time prior to pricing, or when legally permissible, such that the investor is provided with full disclosure of the legal and commercial information and comprehensive risk factors needed to make informed investment decisions;
 - (ii) final offering documents should be available from the closing date and all final underlying transaction documents shortly thereafter. These should be composed such that readers can readily find, understand and use the relevant information.
- (b) To ensure that all the securitisation's underlying documentation has been subject to appropriate review prior to publication, the terms and documentation of the securitisation should be reviewed by an appropriately experienced third party legal practice, such as a legal counsel already instructed by one of the transaction parties,

e.g. by the arranger or the trustee. Investors should be notified in a timely fashion of any changes in such documents that have an impact on the structural risks in the securitisation.

Alignment of interest

- (a) In order to align the interests of those responsible for the underwriting of the credit claims or receivables with those of the investors, the originator or sponsor of the credit claims or receivables should retain a material net economic exposure and demonstrate a financial incentive in the performance of these assets following their securitisation.

(4) Fiduciary and servicer risk

Fiduciary and contractual responsibilities

- (a) In order to help ensure servicers have extensive workout expertise, thorough legal and collateral knowledge and a proven track record in loss mitigation, such parties –
 - (i) should be able to demonstrate expertise in the servicing of the underlying credit claims or receivables, supported by a management team with extensive industry experience;
 - (ii) should at all times act in accordance with reasonable and prudent standards.
 - (iii) should have well-documented policies, procedures, risk management controls, strong systems and reporting capabilities in place and adhere to good market practices and relevant regulatory regimes.
- (b) The party or parties with fiduciary responsibility should act on a timely basis in the best interests of the securitisation noteholders, and both the initial offering and all underlying documentation should contain provisions facilitating the timely resolution of conflicts between different classes of noteholders by the trustees, to the extent permitted by the applicable law.
- (c) The party or parties with a fiduciary responsibility to the securitisation and investors should be able to demonstrate sufficient skills and resources to comply with their duties of care in the administration of the securitisation vehicle. To increase the likelihood that those identified as having a fiduciary responsibility towards investors as well as the servicer execute their duties in full on a timely basis, remuneration should be such that these parties are incentivised and able to meet their responsibilities in full and on a timely basis.
- (d) For capital purposes, in assessing whether “strong systems and reporting capabilities are in place”, well documented policies, procedures and risk management controls, as well as strong systems and reporting capabilities, may be substantiated by a third-party review for non-banking entities.

Transparency to investors

- (a) In order to help provide full transparency to investors, assist investors in the conduct of their due diligence and prevent investors from being subject to unexpected disruptions in cash flow collections and servicing, the contractual obligations, duties and responsibilities of all key parties to the securitisation, both those with a fiduciary responsibility and of the ancillary service providers, should be defined clearly both in the initial offering and all underlying documentation.
- (b) The appropriate provisions should be documented for the replacement of service providers, bank account providers, derivatives counterparties and liquidity providers in the event of failure or non-performance or insolvency or other deterioration of the creditworthiness of any such counterparty to the securitisation.
- (c) To enhance transparency and visibility over all receipts, payments and ledger entries at all times, the performance reports to investors should distinguish and report the securitisation's income and disbursements, such as scheduled principal, redemption principal, scheduled interest, prepaid principal, past due interest and fees and charges, delinquent, defaulted and restructured amounts under debt forgiveness and payment holidays, including accurate accounting for amounts attributable to principal and interest deficiency ledgers.
- (d) For capital purposes, the terms "initial offering" and "underlying transaction documentation" should be understood in the context we defined under documentation disclosure and legal review and the term "income and disbursements" should also be understood as including deferment, forbearance and repurchases.

(5) Additional criteria for capital purposes

Credit risk of underlying exposures

- (a) At the transfer date the underlying exposures have to meet the conditions under the Standardised Approach for credit risk, and after taking into account any eligible credit risk mitigation, for being assigned a risk weight equal to or smaller than:
 - (i) [40%] on a value-weighted average exposure basis for the portfolio where the exposures are loans secured by residential mortgages or fully guaranteed residential loans;
 - (ii) [50%] on an individual exposure basis where the exposure is a loan secured by a commercial mortgage;
 - (iii) [75%] on an individual exposure basis where the exposure is a retail exposure; or
 - (iv) [100%] on an individual exposure basis for any other exposure.

Granularity of the pool

- (a) At the portfolio cut-off date, the aggregated value of all exposures to a single obligor must not exceed:
 - (i) 1% for retail exposures; and
 - (ii) 2% for non-retail exposures;

of the aggregated outstanding exposure value of all exposures in the portfolio, or such other threshold as may be specified in writing by the PA and subject to such conditions as may be specified by the PA.

Criteria for identifying short-term simple, transparent and comparable (STC) securitisations

(a) For purposes of this Annexure –

“ABCP conduit / conduit” means asset-backed commercial paper conduit, being the special purpose vehicle that can issue commercial paper;

“ABCP programme” means the programme of commercial paper issued by an ABCP conduit;

“assets / asset pool” means the credit claims and/or receivables underlying a transaction in which the ABCP conduit holds a beneficial interest;

“investor” means the holder of commercial paper issued under an ABCP programme, or any type of exposure to the conduit representing a financing liability of the conduit, such as loans;

“obligor” means the borrower underlying a credit claim or a receivable that is part of an asset pool;

“seller” means a party that (i) concluded (in its capacity as original lender) the original agreement that created the obligations or potential obligations (under a credit claim or a receivable) of an obligor or purchased the obligations or potential obligations from the original lender(s), and (ii) transferred those assets through a transaction or passed on the interest to the ABCP conduit;

“sponsor” means the sponsor of an ABCP conduit and may include other relevant parties with fiduciary responsibility in the management and administration of the ABCP conduit; and

“transaction” means an individual transaction in which the ABCP conduit holds a beneficial interest. A transaction may qualify as a securitisation, but may also include a direct asset purchase, the acquisition of an undivided interest in a revolving pool of assets or a secured loan.

This Annexure B should be read with the Securitisation Exemption Notice, dated 1 January 2008.

(b) The STC criteria for short-term securitisations as set out in this Annexure –

- (i) do not serve as a substitute for investor due diligence;
- (ii) are non-exhaustive and non-binding;
- (iii) cover ABCP conduits that primarily finance themselves through the issuance of commercial paper, typically involving one or multiple sellers of assets to the ABCP conduit (often short-term trade receivables);
- (iv) focus on the characteristics of the ABCP conduit and the underlying transactions and not on the legal form of the instruments issued or used to fund it;
- (v) do not prevent single seller conduits from qualifying for STC status, even though some of the criteria may be less relevant to such structures;

- (vi) distinguish between criteria relevant at the transaction level and the conduit level in order to reflect the differences in risk, stakeholders or structure at each level;
- (vii) follows all the principles underlying the STC criteria for term securitisations as set out in Annexure A with amendments to reflect specific aspects of ABCP conduits, in particular:
 - (A) the short maturity of the commercial paper issued by ABCP conduits;
 - (B) the different forms of programme structures (multi-seller, single seller); and
 - (C) the existence of multiple forms of liquidity and credit support facilities on different levels of the ABCP structure, that is at conduit level or the transaction level.
- (c) For an ABCP conduit to be considered STC compliant, it must meet the STC criteria as set out below at both the conduit level and the transaction level.
- (d) Additional requirement for capital purposes:
 - (i) For exposures at the conduit level (e.g. exposure arising from investing in the commercial paper issued by the ABCP programme or sponsoring arrangements at the conduit/programme level), compliance with the short-term STC capital criteria is achieved only if the criteria are satisfied at both the conduit level and the transaction level.
 - (ii) In the case of exposures at the transaction level, compliance with the short-term STC capital criteria is considered to be achieved if the transaction-level criteria are satisfied for the transactions to which support is provided.

A: Asset Risk	
Nature of the Asset	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should make representations and warranties to investors that the subsections of criterion on the nature of the asset as defined at the transaction level are met, and explain how this is the case on an overall basis. This should only be done if it is specified for each transaction.</p> <p>Provided that each underlying transaction is homogeneous in terms of asset type, a conduit may be used to finance transactions of different asset types. Programme-wide credit enhancement should not prevent a conduit from qualifying for STC, regardless of whether</p>	<p>The assets underlying a transaction in a conduit should be credit claims or receivables that are homogeneous, in terms of asset type.⁵ The assets underlying each transaction in a conduit should not be composed of “securitisation exposures” as defined in the Basel III securitisation framework. Credit claims or receivables underlying a transaction in a conduit should have contractually identified periodic payment streams relating to rental⁶, principal, interest, or principal and interest payments. Credit claims or receivables generating a single payment stream would equally qualify as eligible. Any referenced interest payments or discount rates should be based on commonly</p>

⁵ For the avoidance of doubt, this criterion does not automatically exclude securitisations of equipment leases and securitisations of auto loans and leases from the short-term STC framework.

⁶ Payments on operating and financing lease are typically considered to be rental payments rather than payments of principal and interest.

such enhancement technically creates re-securitisation.	encountered market interest rates, ⁷ but should not reference complex or complicated formulae or exotic derivatives. ⁸
<p>Additional guidance for capital purposes: “Homogeneity”</p> <p>For capital purposes, this criterion should be assessed taking into account the following principles:</p> <ul style="list-style-type: none"> • The nature of assets should be such that there would be no need to analyse and assess materially different legal and/or credit risk factors and risk profiles when carrying out risk analysis and due diligence checks for the transaction. • Homogeneity should be assessed on the basis of common risk drivers, including similar risk factors and risk profiles. • Credit claims or receivables included in the securitisation should have standard obligations, in terms of rights to payments and/or income from assets that result in a periodic and well-defined stream of payments to investors. Credit card facilities should be deemed to result in a periodic and well-defined stream of payments to investors for the purposes of this criterion. • Repayment of the securitisation exposure should mainly rely on the principal and interest proceeds from the securitised assets. Partial reliance on refinancing or re-sale of the asset securing the exposure may occur provided that re-financing is sufficiently distributed within the pool and the residual values on which the transaction relies are sufficiently low and that the reliance on refinancing is thus not substantial. <p>“Commonly encountered market interest rates”</p> <p>Examples of these would include:</p> <ul style="list-style-type: none"> • interbank rates and rates set by monetary policy authorities, such as Libor, Euribor and the federal funds rate; and • sectoral rates reflective of a lender’s cost of funds, such as internal interest rates that directly reflect the market costs of a bank’s funding or that of a subset of institutions. <p>“Exotic derivatives”</p> <p>Interest rate caps and/or floors would not automatically be considered exotic derivatives.</p> <p>“Conduit should not be composed of ‘securitisation exposures’”</p> <p>The transaction-level requirement is still met if the conduit does not purchase the underlying asset with a refundable purchase price discount but instead acquires a beneficial interest in the form of a note which itself might qualify as a securitisation</p>	

⁷ Commonly encountered market interest rates may include rates reflective of a lender’s cost of funds, to the extent that sufficient data are provided to the sponsors to allow them to assess their relation to other market rates.

⁸ The Global Association of Risk Professionals (GARP) defines an exotic instrument as a financial asset or instrument with features making it more complex than simpler, plain vanilla, products.

exposure, as long as the securitisation exposure is not subject to any further tranching (i.e. has the same economic characteristic as the purchase of the underlying asset with a refundable purchase price discount).	
Asset performance history	
Relevant to the conduit level	Relevant to the transaction level
In order to provide investors with sufficient information on the performance history of the asset types backing the transactions, the sponsor should make available to investors sufficient loss performance data on claims and receivables with substantially similar risk characteristics, such as delinquency and default data on similar claims, and for a time period long enough to permit meaningful evaluation. The sponsor should disclose to investors the sources of such data and the basis for claiming similarity to credit claims or receivables financed by the conduit. Such loss performance data may be provided on a stratified basis. ⁹	In order to provide the sponsor with sufficient information on the performance history of each asset type backing the transactions and conduct appropriate due diligence and to have access to a sufficiently rich data set to enable a more accurate calculation of expected loss in different stress scenarios, verifiable loss performance data, such as delinquency and default data, should be available for credit claims and receivables with risk characteristics substantially similar to those being financed by the conduit, for a time period long enough to permit meaningful evaluation by the sponsor.
<p>Additional requirement for capital purposes:</p> <p>The sponsor of the securitisation, as well as the original lender that underwrites the assets, must have sufficient experience in the risk analysis/underwriting of exposures or transactions with underlying exposures similar to those securitised. The sponsor should have well-documented procedures and policies regarding the underwriting of transactions and the ongoing monitoring of the performance of the securitised exposures. The sponsor should ensure that the seller(s) and all other parties involved in the origination of the receivables have experience in originating the same or similar assets, and are supported by management with industry experience. For the purpose of meeting the short-term STC capital criteria, investors must request confirmation from the sponsor that the performance history of the originator and the original lender for claims or receivables substantially similar to those being securitised has been established for an "appropriately long period of time". This performance history must be no shorter than a period of five years for non-retail exposures and three years for retail exposures.</p>	
Payment status	
Relevant to the conduit level	Relevant to the transaction level
The sponsor should, to the best of its knowledge and based on representations from sellers, make representations and warranties to investors that this criterion	The sponsor should obtain representations from sellers that the credit claims or receivables underlying each transaction are not, at the time of acquisition of the interests to be financed

⁹ Stratified means, by way of example:

- all materially relevant data on the conduit's composition (outstanding balances, industry sector, obligor concentrations, maturities etc.) and conduit's overview; and
- all materially relevant data on the credit quality and performance of underlying transactions, allowing investors to identify collections, and, as applicable, debt restructuring, forgiveness, forbearance, payment holidays, repurchases, delinquencies and defaults.

at the transaction level is met with respect to each transaction.	by the conduit, in default or delinquent or subject to a material increase in expected losses or of enforcement actions
<p>Additional requirement for capital purposes:</p> <p>To prevent credit claims or receivables arising from credit-impaired borrowers from being transferred to the securitisation, the original seller or sponsor should verify that the credit claims or receivables meet the following conditions for each transaction:</p> <ul style="list-style-type: none"> the obligor has not been the subject of an insolvency or debt restructuring process due to financial difficulties in the three years prior to the date of origination; the obligor is not recorded on a public credit registry of persons with an adverse credit history; the obligor does not have a credit assessment by an external credit assessment institution or a credit score indicating a significant risk of default; and the credit claim or receivable is not subject to a dispute between the obligor and the original lender. <p>The assessment of these conditions should be carried out by the original seller or sponsor no earlier than 45 days prior to the acquisition of the transaction by the conduit or, in the case of replenishing transactions, no earlier than 45 days prior to new exposures being added to the transaction. In addition, at the time of the assessment, there should, to the best knowledge of the original seller or sponsor, be no evidence indicating likely deterioration in the performance status of the credit claim or receivable.</p> <p>Further, at the time of their inclusion in the pool, at least one payment should have been made on the underlying exposures, except in the case of replenishing asset trust structures such as those for credit card receivables, trade receivables, and other exposures payable in a single instalment, at maturity.</p>	
Consistency of underwriting	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should make representations and warranties to investors that:</p> <ul style="list-style-type: none"> it has taken steps to verify that, for the transactions in the conduit, any underlying credit claims and receivables have been subject to consistent underwriting standards, and explain how; and when there are material changes to underwriting standards, it will receive from sellers disclosure about the timing and purpose of such changes. <p>The sponsor should also inform investors of the material selection criteria applied</p>	<p>The sponsor should ensure that sellers (in their capacity as original lenders) in transactions with the conduit demonstrate to it that: (a) any credit claims or receivables being transferred to or through a transaction held by the conduit have been originated in the ordinary course of the seller's business subject to materially non-deteriorating underwriting standards. Those underwriting standards should also not be less stringent than those applied to credit claims and receivables retained on the balance sheet of the seller and not financed by the conduit; and (b) the obligors have been assessed as having</p>

when selecting sellers (including where they are not financial institutions).	<p>the ability and volition to make timely payments on obligations.</p> <p>The sponsor should also ensure that sellers disclose to it the timing and purpose of material changes to underwriting standards.</p>
<p>Additional requirement for capital purposes:</p> <p>In all circumstances, all credit claims or receivables must be originated in accordance with sound and prudent underwriting criteria based on an assessment that the obligor has the “ability and volition to make timely payments” on its obligations.</p> <p>The sponsor of the securitisation is expected, where underlying credit claims or receivables have been acquired from third parties, to review the underwriting standards (i.e. to check their existence and assess their quality) of these third parties and to ascertain that they have assessed the obligors’ “ability and volition to make timely payments” on their obligations.</p>	
Asset selection and transfer	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should:</p> <ul style="list-style-type: none"> • provide representations and warranties to investors about the checks (in terms of their nature and frequency) it has conducted regarding the enforceability of underlying assets; and • disclose to investors the receipt of appropriate representations and warranties from sellers that the credit claims or receivables being transferred to the transactions in the conduit are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due. 	<p>The sponsor should ensure that credit claims or receivables transferred to or through a transaction financed by the conduit:</p> <ul style="list-style-type: none"> (a) satisfy clearly defined eligibility criteria; and (b) are not actively selected after the closing date, actively managed¹⁰ or otherwise cherry-picked. <p>The sponsor should be able to assess thoroughly the credit risk of the asset pool before a decision to provide full support to any given transaction or to the conduit.</p> <p>The sponsor should ensure that the transactions in the conduit effect true sale such that the underlying credit claims or receivables:</p> <ul style="list-style-type: none"> • are enforceable against the obligor; • are beyond the reach of the seller, its creditors or liquidators and are

¹⁰ Provided they are not actively selected or otherwise cherry-picked, the addition of credit claims or receivables during the revolving periods or their substitution or repurchasing due to the breach of representations and warranties do not represent active portfolio management.

	<p>not subject to material re-characterisation or clawback risks;</p> <ul style="list-style-type: none"> • are not effected through credit default swaps, derivatives or guarantees, but by a transfer of the credit claims or the receivables to the transaction; and • demonstrate effective recourse to the ultimate obligation for the underlying credit claims or receivables and are not a re-securitisation position. <p>The sponsor should ensure that, in applicable jurisdictions, for conduits employing transfers of credit claims or receivables by other means, sellers can demonstrate to it the existence of material obstacles preventing true sale at issuance¹¹ and should clearly demonstrate the method of recourse to ultimate obligors.¹²</p> <p>In such jurisdictions, any conditions where the transfer of the credit claims or receivables is delayed or contingent upon specific events and any factors affecting timely perfection of claims by the conduit should be clearly disclosed. The sponsor should ensure that it receives from the individual sellers (in their capacity as either original lender or servicer) representations and warranties that the credit claims or receivables being transferred to or through the transaction are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due.</p>
<p>Additional requirement for capital purposes:</p> <p>An in-house or independent third-party legal opinion must support the claim that the true sale and the transfer of assets under the applicable laws comply with points (a) and (b) at the transaction level.</p>	
Initial and ongoing data	
Relevant to the conduit level	Relevant to the transaction level

¹¹ For instance, the immediate realisation of transfer tax or the requirement to notify all obligors of the transfer.

¹² For instance, equitable assignment or perfected contingent transfer.

<p>To assist investors in conducting appropriate due diligence prior to investing in a new programme offering, the sponsor should provide to potential investors sufficient aggregated data that illustrate the relevant risk characteristics of the underlying asset pools in accordance with applicable laws.</p> <p>To assist investors in conducting appropriate and ongoing monitoring of their investments' performance and so that investors who wish to purchase commercial paper have sufficient information to conduct appropriate due diligence, the sponsor should provide timely and sufficient aggregated data that convey the relevant risk characteristics of the underlying pools in accordance with applicable laws.</p> <p>The sponsor should ensure that standardised investor reports are readily available to current and potential investors at least monthly. Cut-off dates of the aggregated data should be aligned with those used for investor reporting.</p>	<p>The sponsor should ensure that the individual sellers (in their capacity as servicers) provide it with:</p> <p>(a) sufficient asset-level data in accordance with applicable laws or, in the case of granular pools, summary stratification data on the relevant risk characteristics of the underlying pool before transferring any credit claims or receivables to such underlying pool; and</p> <p>(b) timely asset-level data in accordance with applicable laws or granular pool stratification data on the risk characteristics of the underlying pool on an ongoing basis. Those data should allow the sponsor to fulfil its fiduciary duty at the conduit level in terms of disclosing information to investors, including the alignment of cut-off dates of the asset-level or granular pool stratification data with those used for investor reporting.</p> <p>The seller may delegate some of these tasks, in which case the sponsor should ensure that there is appropriate oversight of the outsourced arrangements.</p>
<p>Additional requirement for capital purposes:</p> <p>The standardised investor reports which are made readily available to current and potential investors at least monthly should include the following information:</p> <ul style="list-style-type: none"> materially relevant data on the credit quality and performance of underlying assets, including data allowing investors to identify dilution, delinquencies and defaults, restructured receivables, forbearance, repurchases, losses, recoveries and other asset performance remedies in the pool; the form and amount of credit enhancement provided by the seller and sponsor at the transaction and the conduit level, respectively; relevant information on the support provided by the sponsor; and the status and definitions of relevant triggers (such as performance, termination or counterparty replacement triggers). 	
B: Structural risk	
Full support	
Relevant to the conduit level	Relevant to the transaction level
The sponsor should provide the liquidity facility(ies) and the credit protection	(-)

<p>support¹³ for any ABCP programme issued by a conduit. Such facility(ies) and support should ensure that investors are fully protected against credit risks, liquidity risks and any material dilution risks of the underlying asset pools financed by the conduit. On that basis, investors should be able to rely on the sponsor to ensure timely and full repayment of the commercial paper.</p>	
<p>Additional requirement for capital purposes:</p> <p><i>Number of sponsors providing support</i></p> <p>While liquidity and credit protection support at both the conduit level and transaction level can be provided by more than one sponsor, the majority of the support (assessed in terms of coverage) has to be made by a single sponsor (referred to as the “main sponsor”). The liquidity and credit protection support refers to the support provided by the sponsors and any support provided by the seller is excluded. An exception can, however, be made for a limited period of time, where the main sponsor has to be replaced due to a material deterioration in its credit standing.</p> <p><i>Conduit-level requirement</i></p> <p>The full support provided should be able to irrevocably and unconditionally pay the ABCP liabilities in full and on time. The list of risks provided in this criterion that have to be covered is not comprehensive but rather provides typical examples.</p> <p><i>General requirements</i></p> <p>Under the terms of the liquidity facility agreement:</p> <ul style="list-style-type: none"> • Upon specified events affecting its creditworthiness, the sponsor shall be obliged to collateralise its commitment in cash to the benefit of the investors or otherwise replace itself with another liquidity provider. • If the sponsor does not renew its funding commitment for a specific transaction or the conduit in its entirety, the sponsor shall collateralise its commitments regarding a specific transaction or, if relevant, to the conduit in cash at the latest 30 days prior to the expiration of the liquidity facility, and no new receivables should be purchased under the affected commitment. <p>The sponsor should provide investors with full information about the terms of the liquidity facility(ies) and the credit support provided to the ABCP conduit and the underlying transactions (in relation to the transactions, redacted where necessary to protect confidentiality).</p>	
Redemption cash flow	
Relevant to the conduit level	Relevant to the transaction level
(-)	Unless the underlying pool of credit claims or receivables is sufficiently

¹³ A sponsor can provide full support either at the ABCP programme level or at the transaction level, i.e. by fully supporting each transaction within an ABCP programme.

	granular and has sufficiently distributed repayment profiles, the sponsor should ensure that the repayment of the credit claims or receivables underlying any of the individual transactions relies primarily on the general ability and willingness of the obligor to pay rather than the possibility of the obligor refinancing or selling the collateral and that such repayment does not primarily rely on the drawing of an external liquidity facility provided to this transaction.
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Additional requirement for capital purposes

For capital purposes, sponsors cannot use support provided by their own liquidity and credit facilities towards meeting this criterion. For the avoidance of doubt, the requirement that the repayment shall not primarily rely on the drawing of an external liquidity facility does not apply to exposures in the form of the notes issued by the ABCP conduit.

Currency and interest rate asset and liability mismatches

Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should ensure that any payment risk arising from different interest rate and currency profiles:</p> <ul style="list-style-type: none"> (i) not mitigated at the transaction level; or (ii) arising at the conduit level; <p>is appropriately mitigated.</p> <p>The sponsor should also ensure that derivatives are used for genuine hedging purposes only and that hedging transactions are documented according to industry-standard master agreements. The sponsor should provide sufficient information to investors to allow them to assess how the payment risk arising from the different interest rate and currency profiles of assets and liabilities is appropriately mitigated, whether at the conduit level or the transaction level.</p>	<p>To reduce the payment risk arising from the different interest rate and currency profiles of assets and liabilities, if any, and to improve the sponsor's ability to analyse cash flows of transactions, the sponsor should ensure that interest rate and foreign currency risks are appropriately mitigated.</p> <p>The sponsor should also ensure that derivatives are used for genuine hedging purposes only and that hedging transactions are documented according to industry-standard master agreements.</p>

Additional requirement for capital purposes:

The term "appropriately mitigated" should be understood as not necessarily requiring a completely perfect hedge. The appropriateness of the mitigation of interest rate and foreign currency risks through the life of the transaction must be demonstrated by making available, in a timely and regular manner, quantitative information, including the fraction of notional amounts that are hedged, as well as sensitivity

analysis that illustrates the effectiveness of the hedge in extreme but plausible scenarios.

The use of risk-mitigating measures other than derivatives is permitted only if the measures are specifically created and used for the purpose of hedging an individual and specific risk. Non-derivative risk mitigation measures must be fully funded and available at all times.

Payment priorities and observability

Relevant to the conduit level

The commercial paper issued by the ABCP programme should not include extension options or other features which may extend the final maturity of the asset-backed commercial paper, where the right to trigger does not belong exclusively to investors.

The sponsor should:

- i) make representations and warranties to investors that this criterion is met at the transaction level and, in particular, that it can appropriately analyse the cash flow waterfall for each transaction which qualifies as a securitisation; and
- ii) make available to investors a summary (illustrating the functioning) of these waterfalls and the credit enhancement available at the programme level and the transaction level

Relevant to the transaction level

To prevent the conduit from being subjected to unexpected repayment profiles from the transactions, the sponsor should ensure that:

- priorities of payments are clearly defined at the time of acquisition of the interests in these transactions by the conduit; and
- appropriate legal comfort regarding the enforceability is provided.

For all transactions which qualify as a securitisation, the sponsor should ensure that all triggers affecting the cash flow waterfall, payment profile or priority of payments are clearly and fully disclosed to the sponsor in both the transactions' documentation and reports, with information in the reports that clearly identify any breach status, the ability for the breach to be reversed and the consequences of the breach.

Reports should contain information that allows sponsors to easily ascertain the likelihood of a trigger being breached or reversed. Any triggers breached between payment dates should be disclosed to sponsors on a timely basis in accordance with the terms and conditions of the transaction documents.

For any of the transactions where the beneficial interest held by the conduit qualifies as a securitisation position, the sponsor should ensure that any subordinated positions do not have inappropriate payment preference overpayments to the conduit (which should always rank senior to any other

	<p>position) and which are due and payable. Transactions featuring a revolving period should include provisions for appropriate early amortisation events and/or triggers of termination of the revolving period, including, notably:</p> <ul style="list-style-type: none"> (i) deterioration in the credit quality of the underlying exposures; (ii) a failure to replenish sufficient new underlying exposures of similar credit quality; and (iii) the occurrence of an insolvency-related event with regard to the individual sellers. <p>To ensure that debt forgiveness, forbearance, payment holidays, restructuring, dilution and other asset performance remedies can be clearly identified, policies and procedures, definitions, remedies and actions relating to delinquency, default, dilution or restructuring of underlying debtors should be provided in clear and consistent terms, such that the sponsor can clearly identify debt forgiveness, forbearance, payment holidays, restructuring, dilution and other asset performance remedies on an ongoing basis.</p> <p>For each transaction which qualifies as a securitisation, the sponsor should ensure that it receives, both before the conduit acquires a beneficial interest in the transaction and on an ongoing basis, the liability cash flow analysis or information on the cash flow provisions allowing appropriate analysis of the cash flow waterfall of these transactions.</p>
Voting and enforcement rights	
Relevant to the conduit level	Relevant to the transaction level
To provide clarity to investors, the sponsor should make sufficient information available in order for investors to understand their enforcement rights on the underlying credit claims or receivables in the event of insolvency of the sponsor.	<p>For each transaction, the sponsor should ensure that, in particular upon insolvency of the seller or where the obligor is in default on its obligation, all voting and enforcement rights related to the credit claims or receivables are, if applicable:</p> <ul style="list-style-type: none"> • transferred to the conduit; and

	<ul style="list-style-type: none"> clearly defined under all circumstances, including with respect to the rights of the conduit versus other parties with an interest (e.g. sellers), where relevant.
Documentation disclosure and legal review	
Relevant to the conduit level	Relevant to the transaction level
<p>To help investors understand fully the terms, conditions and legal information prior to investing in a new programme offering and to ensure that this information is set out in a clear and effective manner for all programme offerings, the sponsor should ensure that sufficient initial offering documentation for the ABCP programme is provided to investors (and readily available to potential investors on a continuous basis) within a reasonable period of time prior to issuance, such that the investor is provided with full disclosure of the legal information and comprehensive risk factors needed to make informed investment decisions.</p> <p>These should be composed such that readers can readily find, understand and use relevant information. The sponsor should ensure that the terms and documentation of a conduit and the ABCP programme it issues are reviewed and verified by an appropriately experienced and independent legal practice prior to publication and in the event of material changes. The sponsor should notify investors in a timely fashion of any changes in such documents that have an impact on the structural risks in the ABCP programme.</p>	(-)
<p>Additional requirement for capital purposes:</p> <p>To understand fully the terms, conditions and legal information prior to including a new transaction in the ABCP conduit and ensure that this information is set out in a clear and effective manner, the sponsor should ensure that it receives sufficient initial offering documentation for each transaction and that it is provided within a reasonable period of time prior to the inclusion in the conduit, with full disclosure of the legal information and comprehensive risk factors needed to supply liquidity and/or credit support facilities. The initial offering document for each transaction should be composed such that readers can readily find, understand and use relevant information.</p>	

The sponsor should also ensure that the terms and documentation of a transaction are reviewed and verified by an appropriately experienced and independent legal practice prior to the acquisition of the transaction and in the event of material changes.	
Alignment of Interest	
Relevant to the conduit level	Relevant to the transaction level
In order to align the interests of those responsible for the underwriting of the credit claims and receivables with those of investors, a material net economic exposure should be retained by the sellers or the sponsor at the transaction level, or by the sponsor at the conduit level. Ultimately, the sponsor should disclose to investors how and where a material net economic exposure is retained by the seller at the transaction level, or by the sponsor at the transaction or the conduit level, and demonstrate the existence of a financial incentive in the performance of the assets	(-)
Cap on maturity transformation	
Relevant to the conduit level	Relevant to the transaction level
<p>Maturity transformation undertaken through ABCP conduits should be limited. The sponsor should verify and disclose to investors that the weighted average maturity of all the transactions financed under the ABCP conduit is three years or less. This number should be calculated as the higher of:</p> <ol style="list-style-type: none"> 1. the exposure-weighted average residual maturity of the conduit's beneficial interests held or the assets purchased by the conduit in order to finance the transactions of the conduit;¹⁴ and 2. the exposure-weighted average maturity of the underlying assets financed by the conduit calculated by: <ol style="list-style-type: none"> a. taking an exposure-weighted average of residual maturities of the underlying assets in each pool; and then 	(-)

¹⁴ Including purchased securitisation notes, loans, asset-backed deposits and purchased credit claims and/or receivables held directly on the conduit's balance sheet.

<p>b. taking an exposure-weighted average across the conduit of the pool-level averages as calculated in Step 2a.</p> <p>Where it is impractical for the sponsor to calculate the pool-level weighted average maturity in Step 2a (because the pool is very granular or dynamic), sponsors may instead use the maximum maturity of the assets in the pool as defined in the legal agreements governing the pool (e.g. investment guidelines).</p>	
C: Fiduciary and servicer risk	
Financial institution	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should be a financial institution that is licensed to take deposits from the public and is subject to appropriate prudential standards and levels of supervision.</p>	
Fiduciary and contractual responsibilities	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should, based on the representations received from the seller(s) and all other parties responsible for originating and servicing the asset pools, make representations and warranties to investors that:</p> <ul style="list-style-type: none"> the various criteria defined at the level of each underlying transaction are met, and explain how; and the seller's (sellers') policies, procedures and risk management controls are well documented, adhere to good market practices and comply with the relevant regulatory regimes; and that strong systems and reporting capabilities are in place to ensure appropriate origination and servicing of the underlying assets. <p>The sponsor should be able to demonstrate expertise in providing liquidity and credit support in the context of ABCP conduits, and that it is supported by a management team with extensive industry experience. The</p>	<p>The sponsor should ensure that it receives representations from the seller(s) and all other parties responsible for originating and servicing the asset pools that they:</p> <ul style="list-style-type: none"> have well documented procedures and policies in place to ensure appropriate servicing of the underlying assets; have expertise in the origination of assets that are the same as or similar to those in the asset pools; have extensive servicing and workout expertise, thorough legal and collateral knowledge, and a track record in loss mitigation for the same or similar assets; have expertise in the servicing of the underlying credit claims or receivables; and are supported by a management team with extensive industry experience.

<p>sponsor should at all times act in accordance with reasonable and prudent standards. The policies, procedures and risk management controls of the sponsor should be well documented, and the sponsor should adhere to good market practices and the relevant regulatory regime. There should be strong systems and reporting capabilities in place at the sponsor.</p> <p>The party or parties with fiduciary responsibility should act on a timely basis in the best interests of the investors.</p>	
<p>Additional guidance for capital purposes:</p> <p>In assessing whether “strong systems and reporting capabilities are in place”, well documented policies, procedures and risk management controls, as well as strong systems and reporting capabilities, may be substantiated by a third-party review for sellers that are non-banking entities.</p>	
<p>Transparency to investors</p>	
<p>Relevant to the conduit level</p>	<p>Relevant to the transaction level</p>
<p>To help provide full transparency to investors and to assist them in the conduct of their due diligence, the sponsor should ensure that the contractual obligations, duties and responsibilities of all key parties to the conduit, both those with fiduciary responsibility and the ancillary service providers, are defined clearly both in the initial offering and in any relevant underlying documentation (other than the documentation of the underlying transactions) of the conduit and the ABCP programme it issues.</p> <p>The sponsor should also make representations and warranties to investors that the duties and responsibilities of all key parties are clearly defined at the transaction level. The sponsor should ensure that the initial offering documentation disclosed to investors contains adequate provisions regarding the replacement of key counterparties of the conduit (eg bank account providers and derivatives counterparties) in the event of failure or non-performance or insolvency or</p>	<p>The sponsor should conduct due diligence with respect to the transactions on behalf of the investors. To assist the sponsor in meeting its fiduciary and contractual obligations, the duties and responsibilities of all key parties to all transactions (both those with fiduciary responsibility and the ancillary service providers) should be defined clearly in all documentation underlying these transactions and made available to the sponsor.</p> <p>The sponsor should ensure that provisions regarding the replacement of key counterparties (in particular, the servicer or liquidity provider) in the event of failure or non-performance or insolvency or other deterioration of any such counterparty for the transactions are well documented (in the documentation of these individual transactions).</p> <p>To enhance the transparency and visibility of all receipts, payments and ledger entries at all times, the sponsor should ensure that, for all transactions, the performance reports include all of the</p>

<p>deterioration of the creditworthiness of any such counterparty.</p> <p>The sponsor should also make representations and warranties to investors that provisions regarding the replacement of key counterparties at the transaction level are well documented. The sponsor should provide sufficient information to investors about the liquidity facility(ies) and credit support provided to the ABCP programme for them to understand its functioning and key risks.</p>	<p>following: the transactions' income and disbursements, such as scheduled principal, redemption principal, scheduled interest, prepaid principal, past due interest and fees and charges, and delinquent, defaulted, restructured and diluted amounts; and accurate accounting for amounts attributable to principal and interest deficiency ledgers.</p>
D: Additional criteria for capital purposes	
Credit risk of underlying exposures	
Relevant to conduit level	Relevant to transaction level
	<p>At the date of acquisition of the assets, the underlying exposures have to meet the conditions under the Standardised Approach for credit risk and, after the account is taken of any eligible credit risk mitigation, be assigned a risk weight equal to or smaller than:</p> <ul style="list-style-type: none"> • 40% on a value-weighted average exposure basis for the portfolio where the exposures are loans secured by residential mortgages or fully guaranteed residential loans; • 50% on an individual exposure basis where the exposure is a loan secured by a commercial mortgage; • 75% on an individual exposure basis where the exposure is a retail exposure; or • 100% on an individual exposure basis for any other exposure.
Granularity of the pool	
Relevant to conduit level	Relevant to transaction level
<p>At the date of acquisition of any assets securitised by one of the conduits' transactions, the aggregated value of all exposures to a single obligor at that date shall not exceed 2% of the aggregated outstanding exposure value of all exposures in the programme, or such other amount as specified by the PA on such further conditions as may be specified by the PA.</p>	