



## **IOSCO and BCBS document on criteria for identifying simple, transparent and comparable short-term securitisations. October 2018.**

In July 2015, the Basel Committee on Banking Supervision (BCBS) and IOSCO published the criteria for identifying simple, transparent and comparable securitisations. In 2016, the BCBS revised these criteria in order to incorporate the relevant regulatory capital requirements for these securitisations. The aim was to promote a set of principles that might be used by the industry in the development of simple, transparent and comparable securitisation structures.

As short-term securitisations, particularly those using asset-backed commercial paper (ABCP) for their issues, differ significantly in structure from long-term securitisations, the criteria published in July 2015 cannot be applied to them without appropriate amendments. ABCPs are a key part of securitisation markets in some jurisdictions and in some countries provide a very important source of funding for the economy. In response to the comments received, BCBS and IOSCO have developed a set of 17 criteria specifically catering for short-term securitisations, focusing on exposures related to ABCP conduits.

These criteria do not serve as a substitute for investors' due diligence and they are also non-exhaustive and non-binding. Interested parties may supplement these criteria with additional or more detailed criteria.

### **Objectives of the short-term STC criteria**

The aim is to assist the financial industry in its development of short-term securitisations that are simple, transparent and comparable. These criteria were specifically designed to evaluate the risks of a particular securitisation across similar products and to assist investors with their conduct of due diligence on securitisations.

*Criteria on simplicity:* The underlying assets included in each transaction financed by an ABCP conduit should be relatively homogeneous, with simple characteristics and a structure that is not overly complex.

*Criteria on transparency:* a) Investors should have sufficient information on the underlying assets and transactions, as well as details about the conduit structure and liquidity and the credit support received; and b) the sponsors will have granular information on the underlying assets.

*Criteria on comparability:* These should help investors in their understanding of the products and enable comparisons across similar securitisation products within an asset class. Furthermore, it is important for them to take appropriate account of differences across jurisdictions.

*Scope of the criteria:* The criteria on simplicity, transparency and comparability cover ABCP conduits that primarily finance themselves through the issuance of commercial paper, with one or multiple sellers of assets. The criteria 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.

The criteria may be met by single-seller conduits. However, in this case, some of the criteria may be less

relevant because they have been designed for the dual-layer structure of multi-seller conduits.

### *Design of the criteria*

The design of these criteria follows the criteria published in 2015, with some of these amended to reflect specific aspects of ABCP conduits, in particular:

- The short maturity of commercial paper issued by ABCP conduits
- The different forms of programme structures (multi-seller, single seller)
- Existence of multiple forms of liquidity and credit support facilities on different levels of the ABCP structure.

### **Key areas considered by IOSCO-BCBS**

#### 1. Transaction-level and conduit-level criteria

One of the main amendments made to the STC criteria for term securitisations to adapt them for short-term securitisations was to split the criteria into two categories to reflect the two levels of stakeholders relevant in ABCP conduits:

- a.- The sellers, who are typically the original lenders and, potentially, servicers of the underlying assets.
- b.- 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.

As a result, the criteria distinguish between criteria relevant at the transaction level and at the conduit level. Most criteria are relevant at both levels, but have a slightly different focus to reflect the differences in risk, stakeholders or structure at each level.

#### 2. Role of the sponsor

The short-term STC criteria focus on ABCP conduits in which the sponsor is generally not the asset originator or the asset servicer. However, the sponsor usually has a key role in providing credit and liquidity support for, and establishing and managing, the ABCP conduit. For this reason, the criteria specify that the sponsor should assume fiduciary responsibility vis-à-vis investors, which includes providing information to investors and the need for the transactions financed by the ABCP conduit and their underlying assets to meet transaction-level standards.

#### 3. Nature and level of the support

The commercial paper (corporate promissory notes) issued by the ABCP conduit needs to be fully supported. The party providing support should irrevocably and unconditionally commit to pay the investors. Investors are thus fully insulated from underlying liquidity risk and asset-related credit risk, except in the event of the insolvency of the support provider. To further mitigate this risk, the criteria will also require that the party providing full support be a registered financial institution that is licensed to take deposits from the public and subject to prudential regulation in accordance with the Basel framework.

#### 4. Confidentiality and disclosure

Due to the private nature of the transactions financed by the ABCP conduit and the commercially sensitive data shared with the sponsor, full disclosure of detailed granular data to ABCP investors can be undesirable. The criteria therefore lay emphasis on the sponsor being accountable to investors.

#### 5. Re-securitisation

This issue arises in two contexts for multi-seller conduits, namely in terms of a) simplicity of underlying assets

and b) the structure of the ABCP programme.

#### 6. Cap on maturity transformation

A three-year cap on maturity transformation is established to limit maturity mismatch and ensure that an ABCP conduit would not finance a disproportionately large share of such longer-term assets, given the short-term maturity of the commercial paper it issues.

#### 7. Stakeholders

The criteria also aim to standardise the terminology used and to provide clarity on how the responsibilities allocated among the stakeholders and which party in an ABCP conduit is best placed to identify or justify that the criteria are being met.

#### **Link of interest:**

[BCSB and IOSCO Criteria for identifying short-term “simple, transparent and comparable” securitisations](#)