



European Banking Federation



London Investment
Banking Association



European Savings Banks Group



European Association
of Cooperative Banks



European Association
of Public Banks and Funding Agencies

N° 0404
RP/BA

E-Mail

Brussels, 30 June 2008

Commissioner McCreevy
European Commission
Internal Market and Services
B-1049 Brussels

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Dear Commissioner McCreevy,

Subject: Industry Initiatives to Improve Transparency in Securitisation Markets - Increasing Transparency in the Reporting of Securitisation Exposures under the Capital Requirements Directive, Pillar 3

Transparency is a key element in building and maintaining market confidence and in accordance with the October 2007 ECOFIN Roadmap the associations listed above and their members are pleased to summarise below the progress achieved, and actions planned towards promoting sound, consistent and appropriately granular implementation of the securitisation related Capital Requirements Directive (CRD) disclosure requirements. In addition, we outline the position of the industry in relation to the mid-year reporting of the FSF recommendations.

The industry working group has achieved significant progress in its work with regard to enhancing Pillar 3 reporting by producing draft Industry Good Practice Guidelines¹. These guidelines will be issued for stakeholder consultation from 30 June until 15 September 2008 (enclosure 1) and will be finalised by 31 October 2008. Therefore firms will be able to use them in developing their first Pillar 3 disclosures in early 2009.

To develop these guidelines the working group has undertaken two work streams: a Survey of Market Participants (the industry survey), who provide short term liquidity, to identify their informational needs in relation to securitisation and, a Comparative Analysis of CRD Implementation in Member States. In addition the working group has considered the recent publications of the Financial Stability Forum (FSF) and the Committee of European Banking Supervisors (CEBS). While, unlike Pillar 3, the publications by these international bodies do not relate directly to the production of regulatory information, the working group has considered whether there are relevant concepts that can enhance the securitisation disclosures under the CRD and has embodied some of them in the guidelines.

¹ These draft guidelines on securitisation exposures under the CRD are one of three main industry initiatives in response to section 1 of the Roadmap to "enhance transparency for investors, markets and regulators". The other initiatives are described in separate letters and consist of (i) a report that consolidates relevant aggregated European and US data about the securitisation markets, and (ii) a number of investor and issuer focused transparency initiatives that go beyond the transparency agenda items in the Roadmap.

With regard to the recent FSF risk disclosure recommendations for the mid-year, which are much broader in scope than the Pillar 3 disclosures, the European Banking Federation, London Investment Banking Association, European Savings Banks Group, European Association of Cooperative Banks, European Association of Public Banks and Funding Agencies have strongly encouraged all their members to examine them with due care and to implement the FSF recommendations where possible and appropriate. However, flexibility in the application of these recommendations will be necessary to reflect a firm's size and nature and the market in which it operates. To facilitate comparability, the associations have committed to act as a focal point for any questions members have regarding the disclosures, and sharing findings between them. Further, they are committed to undertaking a survey of lessons learnt in the Autumn to develop more consistency.

Furthermore, we hope that our work will be valuable in-put for the Basel Committee on Banking Supervision's (BCBS) mandate to issue further guidance to strengthen disclosure requirements under Pillar 3 by 2009 as reflected in the FSF report. As demonstrated through our past work we remain committed to engage with all relevant parties on a continuing basis to contribute towards robust and meaningful risk disclosures.

Further detail is provided on each of the above areas as follows:

Increasing Transparency in the Reporting of Securitisation Exposures under the CRD Pillar 3 requirements

The objective of the Pillar 3 component within the Basel 2-framework is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. Experience resulting from the financial turmoil has highlighted the particular importance of disclosure for the securitisation business at the current time.

Therefore, the objective of the working group is to develop Industry Good Practice Guidelines to achieve sound, consistent and appropriately granular implementation of the securitisation related CRD disclosure requirements. As a result, clarity and comparability of Pillar 3 disclosure will be enhanced by means of a robust and comprehensive disclosure of securitisation related risks as described by the CRD.

Survey of Market Participants

To assist in the development of the Industry Good Practice Guidelines, the industry working group launched a survey of market participants to determine the factors that influenced their decision to fund the bank and investment firm sector during the second half of 2007, the appropriateness of the information that is currently received and the likely usefulness of the various securitisation disclosures required by the CRD and where they may require further elaboration to ensure that relevant and useful information is produced.

A report summarising the findings of the survey was submitted to the Commission on 11 June. Overall, the survey results demonstrate that there is room for improvement in the current disclosures, even when recognising the improvements already made as a response to recent market events. In particular participants expressed desire for more consistent and granular disclosures, which we believe demonstrates that there is a role for the Industry Good Practice Guidelines. In addition participants highlighted that global consistency was an important issue. Although it is not possible for the industry to enforce global standards on the Pillar 3 disclosures, we are hopeful that since the guidelines will be one of the few sources of implementation documentation available they will be helpful in delivering comparable information. Respondents also highlighted that securitisation disclosure is only one aspect of the information required to make funding decisions and that information requirements will change as the market evolves. Finally as regards the need to further enhance the Pillar 3 securitisation disclosures, the majority of participants either provided no suggestions or indicated that they thought that the disclosures required were appropriate in scope.

Comparative Analysis of CRD Implementation

Further input into the process was provided by a comparative analysis of the transposition of the CRD provisions into national legislation. The analysis revealed that ‘copy out’ was the predominant method of implementation and that there was extremely little additional guidance available to firms. As a result implementation and interpretation of the CRD by banks and investment firms across Member States would potentially vary. The working group, therefore, focussed its attentions on the issues that were being identified by members as part of their implementation process – such as scope and definitional technicalities. These issues were considered in the development of the guidelines.

Industry Good Practice Guidelines

The draft CRD Industry Good Practice Guidelines on securitisation disclosures under Pillar 3 of the CRD will be published for consultation at the end of June 2008. Industry participants and other relevant stakeholders will be invited to comment on the proposals made until the end of September 2008. The industry working group will produce feedback and finalise the guidelines by 31 October 2008. As most banks and investment firms will publish their first-time CRD Pillar 3 disclosures in the first quarter of 2009, the proposed timeline will leave them sufficient time to prepare compliance with the Industry Good Practice Guidelines.

The draft guidelines outline the approach to be taken in relation to certain overarching issues, such as level of application, materiality and location of disclosures. While the industry is in favour of principles-based regulation, the prescriptive nature of the requirements was such that it was difficult to adopt such an approach. As a result the guidelines identify the perceived purpose of each CRD disclosure, but then provide recommendations on the technicalities of implementation supplemented with examples.

FSF Recommendations on Securitisation Disclosure

In April 2008 the Financial Stability Form issued its Report on Enhancing Market and Institutional Resilience. With regard to risk disclosure the report strongly encourages financial institutions to make robust risk disclosures using the leading disclosure practices at the time of their upcoming mid-year 2008 reports. In doing so the report reflects the disclosure initiatives that have already been taken by at least some members of the industry in order to achieve a sufficient degree of transparency in the area of securitisation exposures during the ongoing market turmoil. The European Banking Federation, the London Investment Banking Association, the European Savings Banks Group, the European Association of Cooperative

Banks and the European Association of Public Banks and Funding Agencies have strongly encouraged all their members and their member banks to examine them with due care and to implement the FSF recommendations whenever possible and appropriate.

As the recommendations predominantly relate to the risk disclosure by market participants in the field of securitisation activities they are much broader than the Pillar 3 requirements. For example they include disclosures in relation to trading activity. Both the FSF recommendations and the Pillar 3 requirements taken together will lead to an enhanced disclosure in the field of securitisation.

It is our understanding that individual financial institutions are reviewing the FSF recommendations on supplementary disclosure with a view to enhancing their disclosures at the mid-year. However, firms are different in size, nature and involvement in these markets. Therefore there is a need for flexibility in the development of enhanced disclosure. The absence of consultation on the disclosure recommendations prior to their release by the FSF means that it is likely that there will be differences in implementation across the industry. The European Banking Federation, the London Investment Banking Association, the European Savings Banks Group, the European Association of Cooperative Banks and the European Association of Public Banks and Funding Agencies are committed to a consistent implementation but in the time available the scope for this is limited. However, the associations have committed to act as a focal point for implementation issues raised by members and to share findings. The associations are also committed to undertaking a review of ‘lessons learnt’ in the autumn, to further enhance comparability and consistency going forward.

The FSF report also states that the BCBS will issue in 2009 further guidance to strengthen Pillar 3 disclosure requirements also with regard to securitisation exposures - particular exposures held in the trading book and related to re-securitisation. The BCBS work will be based on the lessons from the recent turmoil and an early assessment of the implementation of Basel II Pillar 3 disclosures that in many countries will be available by 2009. The working group intends to engage with the BCBS on these issues and is committed to reviewing the Industry Good Practice Guidelines in light of the guidance produced once it is available.

With regard to these ongoing and upcoming activities we feel that the different activities described above will deliver useful information in order to make future disclosure in the field of securitisation even more robust than it can already be expected today with regard to the current CRD Pillar 3 requirements and the accompanying FSF recommendations for short term disclosure. We are confident that our efforts described in this letter will not only lead to a clear, comparable and appropriately granular disclosure of securitisation activities with regard to the current regulations but that they will also support the medium term tasks as defined in the FSF report.

We would like to assure you that to the benefit of enhancing transparency in the field of securitisation we are willing and strongly determined to further support every activity that is deemed to serve this purpose.

Sincerely yours,

Guido RAVOET
EBF - Secretary General

Jonathan TAYLOR
LIBA - Director General

Chris DE NOOSE
ESBG - Chairman of the
Management Committee

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