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**Re: Comments on "The case for a better functioning securitisation market in the European Union: A Discussion Paper"**

The Structured Finance Industry Group ("SFIG") appreciates the opportunity to comment on the discussion paper (the "**Paper**") issued jointly on May 30, 2014 by the Bank of England (the "**BoE**") and the European Central Bank (the "**ECB**") regarding the case for a better functioning securitization market in the European Union.<sup>1</sup> SFIG wishes to express its appreciation for the efforts of the BoE and ECB that produced this Paper and strongly supports initiatives to strengthen the global securitization market. Our views as expressed in this letter are based on feedback received from our broad membership.

## **I. Introduction**

SFIG's membership includes, among others, (1) US-based issuers of asset-backed securities ("**ABS**") that may from time to time sponsor or offer ABS to EU investors, (2) US-based investors that may from time to time invest in ABS issued by EU-based issuers, and (3) financial intermediaries that support such issuances or investment activities. US industry participants are impacted by how well the EU securitization market functions because, among other things, the European market:

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<sup>1</sup> SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitisation market. SFIG provides an inclusive network for securitisation professionals to collaborate and, as industry leaders, drive necessary changes, be advocates for the securitisation community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitisation market including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at [www.sfindustry.org](http://www.sfindustry.org).

- creates a diversification of investment opportunities for US investors in ABS;
- provides an additional source of investor demand for US issuers of ABS;
- increases the supply of high-quality, liquid assets available to all market participants; and
- benefits from access to the deep and diversified pool of US fixed income investors, as funding for European originators of ABS shifts toward a more market-based approach and central bank intervention decreases.

Further, we are mindful that significant changes to the European securitization regulatory framework could impact the activities of US investors and the perception of US issuers and that these changes will constitute an important part of the global policy debate. We seek actively to participate in this global policy debate and are currently helping to coordinate the US effort to complete the market survey recently released by the International Organization of Securities Commissions ("IOSCO") and the Basel Committee on Banking Supervision, which focuses on themes similar to those addressed in the Paper.

The following comments include responses to questions asked in the Paper that we believe we are well situated to answer given the nature of our members and their interests (and we identify these questions using italicized font in the relevant parts below as well as provide an index of our responses in Annex A attached hereto). This letter does not intend to respond to questions posed in the Paper that we believe are more suitably addressed by market participants based in the European Union.

## **II. Comments on behalf of SFIG's members pertaining to their interests in the European ABS market**

SFIG's membership strongly supports EU policy initiatives and regulatory change aimed at improving the functioning of the EU securitization market. Securitization is an important source of financing for the real economy and supports the economic recovery both domestically and globally.<sup>2</sup> It is a significant tool for capital raising for providers of credit, which can drive growth in the real economy, and for risk transfer from originators of financing products to the capital markets. Due to the global nature of our financial system, securitization, in order to be most effective, requires seamless operation across borders. In fact, IOSCO in its November 2012 report on global developments in securitization regulations (produced at the direction of the Financial Stability Board) states that "[c]ross border activity is an important component of global securitisation markets".<sup>3</sup>

- The next three paragraphs respond to this question in the Paper: *"Do respondents agree with the benefits of a well-functioning securitisation market as outlined in Section 2?"* We generally agree and would like to especially highlight the following benefits:

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<sup>2</sup> See, e.g., International Organisation of Securities Commissions, Global Developments in Securitisation Regulation: Final Report, 9 (Nov. 16, 2012) (available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD394.pdf>) (the "IOSCO Final Report").

<sup>3</sup> *Id.* at 10.

***A well-functioning EU ABS market would diversify the sources of capital available to the real economy by increasing non-government funding sources.*** Securitization allows originators of loans or credit facilities provided to consumers and "end user" businesses to finance in an efficient and cost-effective manner a wide range of assets that can drive economic growth by offering securities backed by pools of these assets (*e.g.*, auto loans and leases, commercial loans, residential and commercial mortgages, and credit card receivables) to a broad range of investors. Where these originators are not regulated banks, the credit they provide complements the capital traditionally provided by regulated banks. Securitization is a particularly important funding tool for these non-bank credit providers that do not have access to a deposit base for cost-efficient funding. A well-functioning EU ABS market that includes a private, fixed-income investor base willing to invest in EU ABS transactions would increase access to, and diversification of, funding sources for non-bank issuers, as market reliance on central bank intervention decreases.

***A well-functioning EU ABS market would provide important investment opportunities to US institutional investors.*** During periods of greater market issuance of ABS by European originators, US institutional investors historically constituted a significant portion of the primary market demand. We believe that an increase in cross-border ABS offerings as part of a well-functioning EU ABS market would be welcomed by these US investors as presenting important investment opportunities.

***A well-functioning EU ABS market would increase availability of safe assets.*** High-quality, liquid assets ("**safe assets**") play an important role in a well-functioning global financial system because they: (1) can be used as a source of steady income and capital preservation in portfolio construction; and (2) serve a critical function as high quality, liquid collateral in a wide range of financial transactions. Privately issued assets, such as high-quality ABS, represent an important source of safe assets.<sup>4</sup> One clear policy response to the recent global financial crisis has been to make financial institutions more resilient, in part by incentivizing these institutions to hold safer financial assets.<sup>5</sup> The International Monetary Fund ("**IMF**") has reported that demand for safe assets increased at the same time that the supply of safe assets generally decreased.<sup>6</sup> The overall decline in privately issued safe assets since the global financial crisis has contributed to an imbalance of supply and demand for safe assets. Unmet demand for safe assets drives up the price of safety, leading investors that are unable to bear the higher cost of safety to settle for assets that embed higher risks than desired.<sup>7</sup> Demand-supply imbalances in the market for safe assets could also cause "more short-term volatility jumps, herding, and cliff effects."<sup>8</sup> Accordingly, US as well as EU market participants would welcome additional sources of privately issued safe assets coming from a well-functioning EU securitization market.

- The following discussion responds to these two questions in the Paper: "*Do respondents agree that market liquidity may be a barrier to a well-functioning securitisation market?*"

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<sup>4</sup> *Id.* at 3 (reporting that securitized instruments accounted for 17% of the global aggregate supply of safe assets).

<sup>5</sup> See International Monetary Fund, Global Financial Stability Report: The Quest for Lasting Stability, Ch. 3 (April 2012) (available at <http://www.imf.org/external/pubs/ft/gfsr/2012/01/pdf/text.pdf>).

<sup>6</sup> *Id.* at 2.

<sup>7</sup> *Id.* at 32.

<sup>8</sup> *Id.* at 33.

and "Do respondents think that a liquid market for 'qualifying' securitisations used for funding would result from a 'qualifying certification'?"

**Standardization can be a useful technique for increasing market confidence and liquidity.** Mature, liquid financial markets are often characterized by market-driven standardization. When warranted, initiatives to standardize financial instruments can promote market confidence and liquidity. As the Paper notes, the European market for ABS could benefit from increased market confidence and liquidity, and in that light, regulatory incentives that promote standardization appear to be promising. In particular, we recognize a need for developing a more robust fixed-income investor base in the European Union willing to invest in EU securitization transactions. We would like to highlight, however, that we do not believe that secondary trading is a reliable indicator of liquidity. We believe an ABS instrument should be considered liquid when it can be converted into cash in a short period. For example, we would consider high-quality ABS to be liquid if sufficient investors would be willing to purchase the ABS when it is offered, even when there is otherwise typically little active secondary market trading in the ABS because investors prefer to hold the ABS after purchase.

**A qualifying securitization regime will be most effective if market participants have certainty early on as to a qualification certification.** In its response to the Paper, the Association for Financial Markets in Europe ("AFME") includes in its overall comments that "there should be certainty surrounding the categorization of each transaction. ... [P]arties to a securitisation transaction need to be able to have a high degree of certainty early on as to whether the transaction is likely to fall within [the qualifying] category." We strongly concur with this general comment and believe that investors will need such certainty at the very latest at the time they make their investment decision.

- The remainder of this section responds to these questions in the Paper: "*With regard to the policy options mentioned, are there any other considerations authorities should be mindful of?*" and "*Do the principles set out in Box 3 seem broadly sensible given the objective of encouraging a set of securitisations that are more amenable to risk assessment? Are there any obvious unintended consequences?*" and "*These principles may then provide a framework to aid various authorities and market participants to set their own eligibility criteria. How might such a framework be developed? What role could the appropriate authorities play in the process of certifying that a transaction is a 'qualifying securitisation'? What are the associated risks?*"

**Standardization should reflect an industry consensus.** We believe that initiatives intended to promote market confidence and liquidity are most effective when they are driven by market participants. We recommend that relevant EU policy makers and regulators, when seeking to leverage the benefits of standardization to build market confidence and liquidity, consider reliance on industry participants to develop consensus-based standards that present realistic requirements for issuers and provide proportionate value to investors. We note that some asset classes may be less susceptible to standardization due to differences in originators' business practices and supporting systems. Standardization developed by market participants at a principles level should allow for sufficient flexibility to accommodate these business differences.

As an example, we are currently sponsoring the development of an industry consensus regarding standardization in the US market for residential mortgage backed securities to increase market

confidence and liquidity for this particular asset class. Since the fall of 2013, our RMBS 3.0 committee has been working to create consensus among participants in the mortgage backed securities market with varying interests. The goal of this industry-led initiative is to promote best practices for this asset class, including consideration of possible standardization of structures, terms and disclosures. Based on our experience with this committee, we believe that significant changes to standardize structure, terms or disclosures will be more easily implemented if the process involves building consensus among various key market participants.

***Standardization should be implemented in a manner that does not unduly limit innovation.*** In some circumstances, however, we are concerned that standardization may limit innovation needed to appropriately address evolving conditions or opportunities in the EU ABS market, which could prevent available capital from reaching the real economy. To address this risk, SFIG recommends the following strategies to preserve healthy flexibility:

- implementing standardization as high-level principles rather than detailed prescriptive requirements;
- limiting the scope of standardization to clearly identified asset classes that are in need of increased market confidence and liquidity; and
- providing for a procedure pursuant to which exemptive relief may be obtained, where appropriate.

***Market distortions could result if a significant number of securitizations that investors would generally consider to be high-quality ABS would not receive a "qualifying certification".*** SFIG's members generally welcome regulatory incentives for prudent underwriting of underlying assets and structuring of ABS, especially if those regulatory incentives would provide appropriate liquidity coverage ratio ("LCR") or capital relief for ABS that investors generally consider to be high-quality ABS. In its response to the Paper, AFME notes: "The function of any efficient market is to price and allocate risk, not eliminate it." We strongly agree with this statement. We understand the risk of ABS to be a function of the combination of (1) underlying asset quality and (2) structural protections and subordination levels. In light of this understanding, we are somewhat concerned that the "simple and transparent" principle identified in the Paper as a key criterion for the "qualifying" securitization definition may not adequately give credit to structuring elements that would reduce risk. Significant, unintended market distortions may result if, due to inflexible definitions, relatively higher risk ABS are provided advantageous LCR treatment or greater capital relief, while lower risk ABS involving more complex structural protections are not accorded similar treatment. We believe that "transparency" is a much more relevant standard and that all such structural protections should be disclosed to investors in a clear and readily understandable manner.

***Coordination among international regulators is critical to well-functioning global ABS markets.*** Securitization is an important technique for financing the real economy and supporting economic recovery.<sup>9</sup> IOSCO's 2012 report includes the following recommendation: "Regulators should seek to minimize the potentially adverse effects to cross-border securitization transactions

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<sup>9</sup> See, e.g., IOSCO Final Report at 9.

resulting from differences in approaches to incentive alignment and risk retention."<sup>10</sup> If EU regulatory approaches for developing a well-functioning EU securitization market differ significantly from regulation of ABS issuers and markets adopted by other major jurisdictions, such as the United States, securitizers seeking to sell ABS interests in cross-border transactions may need to comply simultaneously with non-aligned requirements of multiple jurisdictions. Even if securitizers are able to comply with multiple sets of regulations, it is very likely that the related increased compliance costs will be ultimately passed on to consumers and "end user" businesses and the broader economy. This could include an increase in financing costs and a decrease in credit availability to consumers. It is possible that a significant number of securitizers would choose to avoid offering their ABS interests in cross-border transactions, which could negatively impact markets market by:

- decreasing the diversity of assets available to investors;
- decreasing the supply of safe assets available in the market; and
- impeding efficient price discovery.

Accordingly, SFIG recommends that relevant EU regulators considering implementation of the incentives discussed in the Paper reduce the potential pressure placed on cross-border securitization markets from non-aligned regulatory structures by coordinating their regulatory initiatives with their non-EU counterparts in other key jurisdictions. Early and efficient coordination of regulatory reform across borders would help ensure that regulatory arbitrage does not pose a risk to the global financial system. Such coordination would also allow for early identification and mitigation of negative extra-territorial effects of inconsistent regulatory actions on the financial sector.

For example, US regulators involved with implementing new regulatory regimes for over-the-counter swaps and security-based swaps have been coordinating with regulators in other key jurisdictions (including, among others, Europe, Canada, Australia and Japan) to develop common policy understanding and adopt regimes that contemplate substituted compliance with comparable regulation.<sup>11</sup> We would recommend that relevant key international regulators similarly develop a common policy understanding related to the definition of "qualifying" securitizations and related regulatory incentives, which would include the possibility of substituted compliance with comparable regulation.

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<sup>10</sup> *Id.* at 48.

<sup>11</sup> See Commodity Futures Trading Commission, Press Release: "CFTC Approves Comparability Determinations for Six Jurisdictions for Substituted Compliance Purposes" (Dec. 20, 2013), available at <http://www.cftc.gov/PressRoom/PressReleases/pr6802-13>; Securities and Exchange Commission, Release No. 34-72472, Final Rule: "Application of Security-Based Swap Dealer" and "Major Security-Based Swap Participant" Definitions to Cross-Border Security-Based Swap Activities, available at <http://www.sec.gov/rules/final/2014/34-72472.pdf>.

### III. Comments related to the potential application of the "qualifying" securitization concept to US transactions

- The following section responds to this question in the Paper: "*Do respondents have any comments on the principles in Box 3?*"

As discussed above, we recommend keeping the "qualifying" securitization definition at a *principles* level to preserve healthy flexibility in the European market, allowing the development of new types of high-quality securitizations that meet the needs of lenders to the real economy. In particular, we believe that standardization of ABS as contemplated by the Paper is not as relevant to the US market, given the anticipated adoption of Regulation AB II and other market initiatives, such as RMBS 3.0 (discussed above). Despite the global financial crisis, US markets for ABS have remained far more liquid and issuance programs/asset classes have remained far more diverse than in the European Union.

It is very important to assess fully the possibility that well-functioning or growing markets for certain asset classes or structures suffer from an implicit "scarlet letter" effect, should they not fall within the category of a standardized "qualifying" securitization. US investors may need to implement additional approvals processes or portfolio limitations if too narrow a definition of "qualifying" securitization is implemented, to manage stigma that may become associated with "non-qualifying" ABS.

To assist in the evaluation of the proposed principles, we have surveyed four existing ABS issues used to finance credit card and auto industry related receivables, which we consider to be representative of high-quality ABS in their respective asset class. Additional details regarding these securities and the results of our analyses are provided in Annex B attached hereto. We note that several of the proposed criteria for "qualifying" securitizations contemplate characteristics or practices that are not currently market practice and may be very costly to implement without necessarily improving the pricing or reducing the risk of the ABS. Even when the criteria for a "qualifying" securitization are appropriately selected and defined, we are concerned that significant transition issues may arise with respect to legacy ABS. Without appropriate phasing-in of any new requirements, the implementation of these criteria could cause market distortions as legacy ABS that investors would have otherwise considered to be high-quality ABS becomes less attractive as compared to more recently issued "qualifying" ABS.

The following points discuss how certain high-quality US asset classes of ABS could have difficulty satisfying a number of the proposed principles set out in Box 3 of the Paper.

- ***Self-liquidating from intrinsic cash flows:*** Certain asset classes, especially those involving the securitization of leases and related residual values of autos or equipment, present a payment structure that is primarily (but technically not 100%) self-liquidating from intrinsic cash flows. For example, securitizations of auto leases that include the residual value of the leased vehicle are primarily self-liquidating as lease payments are made, while the payment of the related securitized residual value would depend on sale proceeds after lease termination. Another example is securitizations that include balloon payment obligations that are settled with proceeds of the sale of the financed property. These asset classes may be considered high-quality by investors even though they involve

an element that is not self liquidating. We suggest that these types of asset classes should not be required to meet the self-liquidating criteria.

- ***Current in payment at time of transfer into the securitization:*** Market participants customarily test asset eligibility as of a cut-off date that is typically up to 30 days (in some instances this time period has been up to 90 days) before the date that assets are transferred into a securitization. We suggest that this criteria take this market practice into account. We also note that assets that are less than 30 days delinquent are frequently considered eligible for transfer into a securitization. To avoid implementation of overly burdensome additional verification procedures and disadvantaging legacy ABS, we recommend that "current at the time of transfer" be construed broadly enough to include assets that were less than 30 days delinquent as of a date reasonably close to the transfer date.
- ***Verifiable loan loss performance covering at least one period of significant market stress:*** This particular principle is likely to become more difficult to satisfy in the future, as it will become less clear whether periodic economic recessions will constitute "significant market stress". We suggest qualifying this principle with a cut-off date, such that it would not require loan loss performance data for any period more than five years prior to the date of issuance. In addition, we are concerned that this principle would present a barrier to entry for emerging asset classes and for new originators. We note that it is likely that significant comparability issues would arise for longer periods as underwriting standards change to accommodate evolving market practices and/or regulatory developments. It would be helpful to have clarification as to what verification procedures are contemplated with the reference of "verifiable" in this standard.
- ***Recourse to primary obligors for underlying assets:*** With respect to US RMBS issuances, at least a dozen US states do not permit recourse to the primary obligors. We recommend that regulators consider adopting an exception to this criteria if recourse to primary obligors is not permitted by relevant home-country law.
- ***Full range of disclosures conforming with the EU Prospectus Directive:*** We recommend EU regulators consider permitting compliance with US disclosure requirements in lieu of the EU Prospectus Directive to satisfy this criteria in cases where the EU Prospectus Directive does not apply by its terms and more than a *de minimis* amount of an offering is sold by a European issuer to US investors or in cases of offerings by US or other non-European issuers in part into the European market. In addition, this criteria reflects a standard that applies to a publicly offered transaction that is often not implemented in the context of privately placed ABS (*i.e.*, only to institutional investors). It would be unduly burdensome to require this criteria to be implemented in the private placement context in order for otherwise high quality ABS to be considered "qualifying" securitizations.
- ***Ongoing reporting of loan-level performance data:*** This type of reporting is currently not required, or market practice, in the United States for most asset types.

- ***Documentation and terms reviewed and verified by an authorized legal practice; transaction terms and reports reviewed by an accountant or calculation agent:*** We are not aware of any requirement, or market practice, in either the United States or the European Union that would satisfy these criteria. Depending on the scope of any required certifications and any related liability risk, it is unclear whether these third party service providers would be willing to provide such services and, if so, whether they could do so at a reasonable cost. In addition, we note that some issuers rely on internal departments to serve the calculation agent role.
- ***Ongoing credit assessment by two external credit assessment institutions:*** Under US law, ABS issuers are not required to obtain ratings from two rating agencies if a rating is obtained. Accordingly, US ABS may be only rated by one rating agency. In fact, reliance on credit assessments by external credit assessment institutions as a proxy for creditworthiness in a regulatory context would run counter to the US public policy reflected in Sections 939 and 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. In addition, this criteria reflects a market practice that is customary for a publicly offered transaction. Many private placements of ABS are not rated at all. It would be unduly burdensome to require this criteria to be implemented in the private placement context in order for otherwise high quality ABS to be considered "qualifying" securitizations.

#### **IV. Conclusion**

In summary, our responses to the Paper include, among others, the following key recommendations:

- keep the "qualifying" securitization definition at a *principles* level to preserve healthy flexibility in the European market, allowing the development of new types of high-quality securitizations that meet the needs of lenders to the real economy;
- when seeking to leverage the benefits of standardization to build market confidence and liquidity, consider reliance on industry participants to develop consensus-based standards that present realistic requirements for issuers and provide proportionate value to investors;
- provide market participants with certainty early on as to a qualification certification; and
- reduce the potential pressure placed on cross-border securitization markets from non-aligned regulatory structures by coordinating EU regulatory initiatives with non-EU counterparts in other key jurisdictions.

We greatly appreciate your consideration of our members' comments. Please do not hesitate to contact Richard Johns at 202-524-6301 should you have any questions in connection with this letter.

Very truly yours,

Richard Johns

Richard Johns  
Executive Director

**Index of Questions and Responses**

<b>Questions in the Paper</b>		<b>Page(s) of this Letter on which Response Appears</b>
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2.	Do respondents agree with the impediments to and economic concerns of investors that have been identified? Do respondents think that there are any additional impediments to investors, and if so, what are they?	n/a
3.	Do respondents agree with the impediments to and economic concerns of issuers that have been identified? Do respondents agree that the infrastructure concerns raised above affect the economics of securitisation? Do respondents think that there are any additional impediments to issuers, and if so, what are they?	n/a
4.	Do respondents agree that market liquidity may be a barrier to a well-functioning securitisation market?	4
5.	The view of the Bank of England and the ECB is that a ‘qualifying securitisation’ should be defined as a security where risk and pay-offs can be consistently and predictably understood. Do respondents agree with this definition? What characteristics of a ‘qualifying securitisation’ not already included in the principles in Box 3 should warrant such treatments? Do respondents have any comments on the principles in Box 3?	7-9
6.	Do respondents think that a liquid market for ‘qualifying’ securitisations used for funding would result from a ‘qualifying certification’?	4
7.	These principles may then provide a framework to aid various authorities and market participants to set their own eligibility criteria. How might such a framework be developed? What role could the appropriate authorities play in the process of certifying that a transaction is a ‘qualifying securitisation’? What are the associated risks?	4-6
8.	Do respondents think that harmonisation and further conversion software could bring benefits to securitisation markets? If so, which asset classes should be targeted? How can accessibility to the existing loan level data be improved, so that it provides most value to investors?	n/a
9.	Do respondents think that initiatives currently undertaken by authorities in the area of standardisation of prospectuses and investor reports and trade transparency are sufficient or is there scope for further improvements? Would the availability of prospectuses and standardized investor reports in a single location be helpful to securitisation markets?	n/a
10.	Do respondents agree that facilitating investors’ access to credit data in an appropriate manner could support the emergence of securitisation markets? Would credit registers be helpful in this respect? If so, which asset classes should be targeted? In what form could access be granted to ensure that borrowers’ confidentiality is preserved?	n/a

Questions in the Paper	Page(s) of this Letter on which Response Appears
11. In order to aid performance measurement and to provide investors with industry-level data, would it be helpful if certain macro-economic data were disclosed or if banks/ non-banks published certain aggregated standardised data? What are the challenges of providing potential investors with sufficient borrower and loan-level data to enable them to model credit risk, and how can these be overcome? What other elements would in your view help to improve secondary market functioning for high-quality securitisation?	n/a
12. Do respondents think that authorities should consider encouraging the industry to develop such benchmark indices? What risks might these give rise to? What indices would be useful and which could be easily produced?	n/a
13. Do respondents agree that additional information in the form of a matrix showing implied ratings if the sovereign and ancillary facilities rating caps were to be set at higher levels would be helpful in supporting the investment process and contribute to increased transparency and liquidity?	n/a
14. How important do respondents see the impediment related to the availability of ancillary facilities? Would the benefits of facilitating SPV bank accounts that fall outside the originator's insolvency estate outweigh the costs of such an initiative? Are there other initiatives in this area that would be beneficial?	n/a
15. With regard to the policy options mentioned, are there any other considerations authorities should be mindful of?	4-6
16. Do respondents think there are other policy options authorities should consider to support the emergence of simple, transparent and robust securitisation markets?	n/a
17. Beyond securitisation, might there be other ways of achieving (some of) the benefits of securitisation as outlined in Section 2? What might be the associated risks of such options?	n/a
18. Do the principles set out in Box 3 seem broadly sensible given the objective of encouraging a set of securitisations that are more amenable to risk assessment? Are there any obvious unintended consequences?	4-6

**Evaluation of Examples of ABS Transactions Involving Auto and Card Assets**

	Ford US Auto ABS (1)	Ford EU Auto ABS (2)	GM EU Floorplan ABS (3)	Chase US Credit Card ABS (4)
<b>I. Underlying Asset Characteristics</b>				
<ul style="list-style-type: none"> <li>Credit claims or receivables with terms relating to either (1) rental payments or (2) principal and interest payments</li> </ul>	Yes	Yes (5)	Yes	Yes
<ul style="list-style-type: none"> <li>Any interest payments are based on commonly encountered market interest rates (may include caps and floors, but not complex formulae or exotic derivatives)</li> </ul>	Yes	Yes	Yes	Yes
<ul style="list-style-type: none"> <li>Homogenous in asset type</li> </ul>	Yes	Yes (6)	Yes	Yes
<ul style="list-style-type: none"> <li>Consistently originated in the ordinary course of the originator’s business involving either (1) obligors satisfying prudent and consistent underwriting criteria or (2) granular pools of retail consumers for which expected cash flows can meet the securitization’s stated obligations under prudently stressed loan loss scenarios</li> </ul>	Yes (7)	Yes (7)	Yes (7)	Yes (7)
<ul style="list-style-type: none"> <li>Current in payment at time of transfer into the securitization</li> </ul>	Unclear (8)	Unclear (8)	Yes (9)	Yes (10)
<ul style="list-style-type: none"> <li>Self-liquidating from intrinsic cash flows (may not rely on future borrowings or asset sales for timely payment of interest and principal)</li> </ul>	Yes	Yes (11)	Yes	Yes
<b>II. Structure &amp; Disclosures</b>				
<ul style="list-style-type: none"> <li>Structure is simple (not overly complex)</li> </ul>	Unclear (12)	Unclear (12)	Unclear (12)	Unclear (12)
<ul style="list-style-type: none"> <li>Verifiable loan loss performance for substantially similar receivables / assets for a time period covering at least the effective life cycle of the assets</li> </ul>	Yes	Yes	Unclear (13)	Yes

	Ford US Auto ABS (1)	Ford EU Auto ABS (2)	GM EU Floorplan ABS (3)	Chase US Credit Card ABS (4)
<ul style="list-style-type: none"> <li>Verifiable loan loss performance for substantially similar receivables / assets for a time period covering at least one period of significant market stress</li> </ul>	Yes (14)	Yes (14)	Unclear (13)	Yes (14)
<ul style="list-style-type: none"> <li>Recourse to primary obligors for underlying assets (no reliance on derivative-linked claims or a securitization of other securitizations)</li> </ul>	Yes	Yes	Yes	Yes
<ul style="list-style-type: none"> <li>If underlying assets are secured on specified tangible assets, security is first-ranking (or other higher ranking rights are also transferred to the securitization)</li> </ul>	Yes	Yes	Yes	Yes
<ul style="list-style-type: none"> <li>True sale of the underlying assets, confirmed by a legal opinion, such that the transfer is: <ul style="list-style-type: none"> <li>enforceable against any third party;</li> <li>beyond reach of seller, its creditors or liquidators;</li> <li>not effected through CDS or derivatives; and</li> <li>not subject to identifiable re-characterization or claw-back risks.</li> </ul> </li> </ul>	Yes (15)	Yes (15)	Yes (15)	Yes (15)
<ul style="list-style-type: none"> <li>Ongoing reporting of loan-level performance data to current and potential investors on a monthly / quarterly basis throughout the life of the securitization</li> </ul>	No	Yes	No	No
<ul style="list-style-type: none"> <li>Ability to distinguish and report all income and disbursements</li> </ul>	Yes	Yes	Yes	Yes
<ul style="list-style-type: none"> <li>Initial loan-level or granular pool stratification data intended to permit potential investors to construct and analyze cash flow models</li> </ul>	Yes (16)	Yes	Yes	Yes (16)

	Ford US Auto ABS (1)	Ford EU Auto ABS (2)	GM EU Floorplan ABS (3)	Chase US Credit Card ABS (4)
• Clear and consistent definitions for debtor payments, payment priorities and other rights	Yes	Yes	Yes	Yes
• Documentation and terms reviewed and verified by an authorized legal practice	Unclear (17)	Unclear (17)	Unclear (17)	Unclear (17)
• Transaction terms reviewed by an accountant or calculation agent	No	No	No	No
• Reports reviewed by an accountant or calculation agent	No	No	No	No (18)
• Full range of disclosures conforming with the EU Prospectus Directive	No (19)	Yes	Yes	No (19)
• Transaction level information provided on identity, roles and responsibilities of all transaction parties, including servicers and counterparties	Yes	Yes	Yes	Yes
• Servicer applies same servicing policies, procedures and standards to the underlying assets that it applies to similar non-securitized assets	Yes	Yes	Yes	Yes
• Documentation includes provisions for the replacement of servicers, derivative counterparties and liquidity providers in the event of breach or deterioration of creditworthiness of any such counterparty to the securitization	Yes (20)	Yes (20)	Yes (20)	Yes (20)
• Ongoing credit assessment by two external credit assessment institutions	Yes	Yes	Yes	Yes (21)

#### Notes

- (1) Multiple classes of asset backed notes with a range of final payment dates issued by Ford Credit Auto Owner Trust 2014-B issued on June 24, 2014 (financing a pool of car, light truck and utility vehicle receivables purchased by Ford Motor Credit Company LLC from dealers).
- (2) Asset backed notes due April 20, 2022 issued by Globaldrive Auto Receivables 2014-A B.V. on May 28, 2014 (financing receivables under German law governed retail auto loan agreements, originated in Germany by FCE Bank plc through motor vehicle dealers).
- (3) EMOT 2012-1 Asset Backed Notes due June 17, 2016 issued on April 26, 2012 (financing automobile dealer floorplan receivables from GMAC Banque and GMAC Bank GmbH).

- (4) Multiple classes and tranches of CHASE series notes issued by Chase Issuance Trust from time to time, backed by credit card receivables owned by Chase Bank USA, National Association or by one of its affiliates.
- (5) This response assumes that loans to retail customers with balloon payments would be considered a receivable that meets this criteria.
- (6) This response assumes that loans to retail customers with balloon payments would be considered homogenous with fully amortizing loans to retail customers.
- (7) These responses assume that "consistently originated", "consistent underwriting standards" and "prudently stressed" would be interpreted broadly. Additional clarification as to the intended scope of these concepts would be helpful, as such standards may change over a period of several years to reflect changes in market practice or in response to regulatory developments.
- (8) Underlying assets were eligible for transfer into this securitization if they were less than 30 days delinquent as of the cut-off date, which was a date within 30 days of closing.
- (9) Only current assets are contributed when using a revolving master trust structure.
- (10) Any new receivables generated in accounts that have been designated to the securitization trust are, by definition, current. At the time of an addition of an account to the trust, however, the account might have receivables that were delinquent and still satisfied the criteria for eligible account as defined in the relevant transaction documents.
- (11) This response assumes that the settlement of a balloon payment obligation from the proceeds of the sale of the financed vehicle would qualify as "self-liquidating".
- (12) This criteria appears to be highly subjective and would benefit from additional high-level guidance / definition to enable a meaningful evaluation.
- (13) Historic loan loss data is not available because loan losses have been zero.
- (14) These responses assume that disclosure covering the five years prior to issuance satisfies this criteria. It is unclear whether it would be as easy to satisfy this criteria in future issuances, and it is unclear whether an economic recession would qualify as a period of "significant market stress".
- (15) These responses assume that this criteria would be met even if the relevant "true sale" legal opinion included the customary, generic exception regarding the operation of re-characterization or claw-back rules in the bankruptcy context.
- (16) These responses assume that transactions including only standard stratification data of whole pool would qualify under this standard.
- (17) It is unclear what type of review and verification process would be required. While law firms were involved in the preparation of transaction documentation, no affirmative certification of verification was provided.
- (18) Accountants are engaged to perform annual attestations pursuant to Regulation AB, which includes review of a sample of monthly servicing reports for the relevant calendar year.
- (19) The disclosure requirements of the EU Prospectus Directive did not apply to this offering because these ABS were not publicly offered in the European Union. Instead, the prospectus for this offering complied with applicable US disclosure standards.
- (20) These responses assume that this criteria does not require pre-identification of a back-up / alternate servicers, counterparties or liquidity providers.
- (21) While the program documents for this securitization only require one rating, each tranche of notes publicly issued out of this securitization program is currently rated by one, two or three rating agencies.