Meeting Between the Securitization Group of the Basel Committee and Banking Industry Representatives February 18,2004

Members of the Basel Committee's Securitization Group (SG) met with representatives of the international banking industry to discuss industry reaction to the latest treatment of securitization as outlined in the January 30,2004 technical paper, *Changes to the Securitisation Framework.* U.S. representatives who participated in the meeting include: Jason Cave (FDIC); Thomas Boemio (FRB); David Jones (FRB); Dianne Dobbeck (FRBNY); Seth Fliegler (FRBNY); and Amrit Sekhon (OCC).

The discussion focused on the industry's concerns about five major topics: the Internal Assessment Approach, the Simplified Supervisory Formula, the revisions to the Top-Down Approach, the Ratings-Based Approach (RBA) risk weight table and the treatment of capitalized I/Os.

Central to the meeting was the discussion on the Internal Assessment Approach (IAA), which can be used in determining capital charges for liquidity facilities and credit enhancements that banks extend to ABCP conduits. In particular, the industry representatives inquired about the proposed operational standards that must be met in order to implement the IAA. One specific question referred to the banks' reliance on rating agency methodologies, which will be used to generate an internal rating of an asset class. The SG responded that it would further consider the industry's comments and input.

The second area of discussion focused on the Simplified Supervisory Formula (SSF). Industry representatives questioned the merits of the simplified version of the supervisory formula and voiced their preference for the original albeit more complex formula outlined in the BCBS third consultative paper (CP3). They inquired about the reinstatement of the original supervisory formula, while voicing their concerns about calculating the KIRB for certain asset classes. In the subsequent discussion on the Top-Down Approach the SG requested that banking institutions provide specific examples of where the industry would have difficulty in calculating KIRB for certain securitization exposures. During that discussion, the industry also provided comments on the proposed capital charge on dilution risk and expressed that the requirement was too conservative. In response, the SG asked the banking industry representatives to provide information as to how financial institutions currently manage dilution risk and what the potential problems may be with the change in the capital charge as stated in CP3.

The last topics of discussion concentrated on the Ratings-Based Approach (RBA) risk weight tables and the treatment of capitalized I/Os. Industry representatives acknowledged the SG's responsiveness to previous comments and recommendations provided by the financial institutions in terms of better aligning risk weights with the level of risk inherent in securitization exposures. At the same time, they asked the SG to consider allowing the left-hand column of the risk weights to include not only senior positions, but also account for thick and granular tranches.[1] The SG will consider the industry's feedback. The SG and industry representatives also briefly discussed the treatment of capitalized I/Os and how these exposures might be treated in conjunction with the KIRB cap.

[1] The definition of thick and granular tranches is defined in paragraph 585 of CP3.