

SECTION I.1 - SECURITISATION¹

General Principles

1.0 Exposures to Transferred Credit Risk

1.1 A credit institution, other than when acting as an originator, a sponsor or original lender, shall be exposed to the credit risk of a securitisation position in its trading book or non-trading book only if the originator, sponsor or original lender has explicitly disclosed to the credit institution that it will retain, on an ongoing basis, a material net economic interest which, in any event, shall not be less than 5%.

For the purpose of this paragraph, ‘retention of net economic interest’ means:

- (a) retention of no less than 5% of the nominal value of each of the tranches sold or transferred to the investors;
- (b) in the case of securitisations of revolving exposures, retention of the originator’s interest of no less than 5% of the nominal value of the securitised exposures;
- (c) retention of randomly selected exposures, equivalent to no less than 5% of the nominal amount of the securitised exposures, where such exposures would otherwise have been securitised in the securitisation, provided that the number of potentially securities exposures is no less than 100 at origination;
- (d) retention of the first loss tranche and, if necessary other tranches having the same or a more severe risk profile than those transferred or sold to investors and not maturing any earlier than those transferred or sold to investors, so that the retention equals in total no less than 5% of the nominal value of the securitised exposures

Net economic interest is measured at the origination and shall be maintained on an ongoing basis. It shall not be subject to any credit risk mitigation or any short positions or any other hedge. The net economic interest shall be determined by the notional value for off-balance sheet items.

For the purpose of this paragraph, ‘ongoing basis’ means that retained positions, interest or exposures are not hedged or sold.

There shall be no multiple applications of the retention requirements for any given securitisation.

1.2 Where an EU parent credit institution or an EU parent financial holding company or an EU parent mixed financial holding company, or one of its subsidiaries, as an originator or a sponsor, securitises exposures from several credit institutions, investment firms or other financial institutions which are included in the scope of supervision on a consolidated basis, the requirement referred to in paragraph 1.1 may be satisfied on the basis of the consolidated situation of the related EU parent credit institution, EU parent financial holding company or EU parent mixed financial holding company. This paragraph shall apply only where credit institutions, investment firms or financial institutions which created the securitised

¹ In order to further assist compliance with the requirements of this Appendix and further clarity on specific aspects of its detailed requirements, credit institutions shall refer to the ‘Guidelines to Article 122a of the Capital Requirements Directive’ issued by CEBS on 31 December 2010.

exposures have committed themselves to adhere to the requirements set out in paragraph 1.6 and deliver, in a timely manner, to the originator or sponsor and to the EU parent credit institution, the EU parent financial holding company or the EU parent mixed financial holding company the information needed to satisfy the requirements referred to in paragraph 1.7.

- 1.3 Paragraph 1.1 shall not apply where the securitised exposures are claims or contingent claims on or fully, unconditionally and irrevocably guaranteed by:
- (a) central governments or central banks;
 - (b) regional governments, local authorities and public sector entities of Member States;
 - (c) institutions to which a 50 % risk weight or less is assigned under Articles 78 to 83; or
 - (d) multilateral development banks.

Paragraph 1.1 shall not apply to:

- (a) transactions based on a clear, transparent and accessible index, where the underlying reference entities are identical to those that make up an index of entities that is widely traded, or are other tradable securities other than securitisation positions; or
- (b) syndicated loans, purchased receivables or credit default swaps where these instruments are not used to package and/or hedge a securitisation that is covered by paragraph 1.1.

- 1.4 Before investing, and as appropriate thereafter, credit institutions shall be able to demonstrate to the authority, for each of their individual securitisation positions, that they have a comprehensive and thorough understanding of and have implemented formal policies and procedures appropriate to their trading book and non-trading book and commensurate with the risk profile of their investments in securitised positions for analysing and recording:
- (a) information disclosed under paragraph 1, by originators or sponsors to specify the net economic interest that they maintain, on an ongoing basis, in the securitisation;
 - (b) the risk characteristics of the individual securitisation position;
 - (c) the risk characteristics of the exposures underlying the securitisation position;
 - (d) the reputation and loss experience in earlier securitisations of the originators or sponsors in the relevant exposure classes underlying the securitisation position;
 - (e) the statements and disclosures made by the originators or sponsors, or their agents or advisors, about their due diligence on the securitised exposures and, where applicable, on the quality of the collateral supporting the securitised exposures;
 - (f) where applicable, the methodologies and concepts on which the valuation of collateral supporting the securitised exposures is based and the policies adopted by the originator or sponsor to ensure the independence of the valuer; and,
 - (g) all the structural features of the securitisation that can materially impact the performance of the credit institution's securitisation position.

Credit institutions shall regularly perform their own stress tests appropriate to their securitisation positions. To this end, credit institutions may rely on financial models developed by an ECAI provided that credit institutions can demonstrate, when requested,

that they took due care prior to investing, to validate the relevant assumptions in and structuring of the models and to understand methodology, assumptions and results.

- 1.5 Credit institutions, other than when acting as originators or sponsors or original lenders, shall establish formal procedures appropriate to their trading book and non-trading book and commensurate with the risk profile of their investments in securitised positions to monitor on an ongoing basis and in a timely manner performance information on the exposures underlying their securitisation positions. Where relevant, this shall include the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with bandwidths that facilitate adequate sensitivity analysis. Where the underlying exposures are themselves securitisation positions, credit institutions shall have the information set out in this subparagraph not only on the underlying securitisation tranches, such as the issuer name and credit quality, but also on the characteristics and performance of the pools underlying those securitisation tranches.

Credit institutions shall have a thorough understanding of all structural features of a securitisation transaction that would materially impact the performance of their exposures to the transaction such as the contractual waterfall and waterfall related triggers, credit enhancements, liquidity enhancements, market value triggers, and deal-specific definition of default.

Where the requirements in paragraphs 1.4, 1.7 and in this paragraph are not met in any material respect by reason of the negligence or omission of the credit institution, the authority shall impose a proportionate additional risk weight of no less than 250 % of the risk weight (capped at 1250 %) which would, but for this paragraph, apply to the relevant securitisation positions under Appendix 3, Section I.4, and shall progressively increase the risk weight with each subsequent infringement of the due diligence provisions. The competent authorities shall take into account the exemptions for certain securitisations provided in paragraph 1.3 by reducing the risk weight it would otherwise impose under this Section in respect of a securitisation to which paragraph 1.3 applies.

- 1.6 Sponsor and originator credit institutions shall apply the same sound and well-defined criteria for credit-granting to exposures to be securitised as they apply to exposures to be held on their book. To this end the same processes for approving and, where relevant, amending, renewing and re-financing credits shall be applied by the originator and sponsor credit institutions. Credit institutions shall also apply the same standards of analysis to participations or underwritings in securitisation issues purchased from third parties whether such participations or underwritings are to be held on their trading or non-trading book.

Where the requirements referred to in the first subparagraph of this paragraph are not met, paragraph 4.0 below shall not be applied by an originator credit institution and that originator credit institution shall not be allowed to exclude the securitised exposures from the calculation of its capital requirements under this Rule.

- 1.7 Sponsor and originator credit institutions shall disclose to investors the level of their commitment under paragraph 1.1 to maintain a net economic interest in the securitisation. Sponsor and originator credit institutions shall ensure that prospective investors have readily

available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitisation exposure as well as such information that is necessary to conduct comprehensive and well informed stress tests on the cash flows and collateral values supporting the underlying exposures. For that purpose, materially relevant data shall be determined as at the date of the securitisation and where appropriate due to the nature of the securitisation thereafter.

- 1.8 Paragraphs 1.1 to 1.7 shall apply to new securitisations issued on or after 1 January 2011. Paragraphs 1.1 to 1.7 shall, after 31 December 2014, apply to existing securitisations where new underlying exposures are added or substituted after that date. Furthermore, the authority may decide to suspend temporarily the requirements referred to in paragraphs 1.1 and 1.2 during periods of general market liquidity stress.

General Principles

- 2.0 When a credit institution uses the Standardised Approach for the calculation of risk-weighted exposure amounts for the Securitisation exposure class, it shall calculate the risk-weighted exposures amount for the securitisation position in accordance with paragraphs 1.0.1 to 2.7.2 of Appendix 3 Section I.4.
- 3.0 In all other cases, it shall calculate the risk-weighted exposure amount in accordance with paragraphs 1.0.1 to 1.0.5 and 3.1.1 to 3.8.5 of Appendix 3 Section I.4.
- 4.0 Where significant credit risk associated with securitised exposures has been transferred from the originator credit institution in accordance with the terms of Appendix 3 Section I.3, that credit institution may:
- (a) in the case of a traditional securitisation, exclude from its calculation of risk-weighted exposure amounts and, as relevant, expected loss amounts, the exposures which it has securitised;
 - (b) in the case of a synthetic securitisation, calculate risk-weighted exposure amounts, and, as relevant, expected loss amounts, in respect of the securitised exposures in accordance with Appendix 3 Section I.3.

The originator credit institution shall then need to calculate the risk-weighted exposure amounts for the positions that it may hold in the securitisation.

- 5.0 Where the originator credit institution fails to transfer significant credit risk in accordance with paragraph 4.0, it need not calculate risk-weighted exposure amounts for any positions it may have in the securitisation in question.
- 6.0 A sponsor credit institution or an originator credit institution which is deemed to have transferred significant credit risk, in line with paragraph 4.0, or has sold instruments from its trading book to a securitisation special purpose entity to the effect that it is no longer required to hold own funds for the risks of those instruments shall not, with a view to reducing potential or actual losses to investors, provide support to the securitisation beyond its contractual obligations.

- 7.0 If an originator credit institution or a sponsor credit institution fails to comply with paragraph 6.0, the authority shall require it at a minimum, to hold capital against all of the securitised exposures as if they had not been securitised. The credit institution shall disclose publicly that it has provided non-contractual support and the regulatory capital impact of having done so.
- 8.0 To calculate the risk-weighted exposure amount of a securitisation position, risk weights shall be applied to the exposure value of the position based on the credit quality of the position, which may be determined by reference to an ECAI credit assessment or otherwise, as highlighted in this Appendix.
- 9.0 Where there is an exposure to different tranches in a securitisation, the exposure to each tranche shall be considered a separate securitisation position. The providers of credit protection to securitisation positions shall be considered to hold positions in the securitisation. Securitisation positions shall include exposures to a securitisation arising from interest rate or currency derivative contracts.
- 10.0 Where a securitisation position is subject to funded or unfunded credit protection the risk-weight to be applied to that position may be modified in accordance with Appendix 2 Section III in conjunction with Appendix 3.
- 11.0 Unless deducted directly from own funds, the risk-weighted exposure amount shall be included in the credit institution's total of risk weighted exposure amounts for the purposes of the calculation of the Capital Requirement Ratio.
- 12.0 Where there is a securitisation of revolving exposures subject to an early amortisation provision, the originator credit institution shall calculate an additional risk-weighted exposure amount in respect of the risk that the levels of credit risk to which it is exposed may increase following the operation of the early amortisation provision.
- 13.0 For those purposes, a revolving exposure shall be an exposure whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agree limit, and an early amortisation provision shall be a contractual clause which requires, on the occurrence of defined events, investors' positions to be redeemed before the originally stated maturity of the securities issued.

14.0 Use of ECAIs and Mapping of ratings

- 14.1 An ECAI credit assessment may be used to determine the risk weight of a securitisation position only if the ECAI has been recognised as eligible by the authority for this purpose. Such an ECAI, is hereinafter referred to as an 'eligible ECAI'.
- 14.2 The authority shall recognise an ECAI as eligible only if it is satisfied as to its compliance with the requirements laid down in Appendix 2 Section I.3 and the technical criteria in Appendix 2 Section I.3, and that it has a demonstrated ability in the area of securitisation which may be evidenced by a strong market acceptance. Where an ECAI is registered as a credit rating agency in accordance with Regulation (EC) No 1060/2009, the competent authorities shall consider the requirements of objectivity, independence, ongoing review and transparency with respect to its assessment methodology to be satisfied.

- 14.3 To be used for this purpose a credit assessment of an eligible ECAI shall comply with the principles of credibility and transparency as elaborated in Appendix 3 Section I.3.
- 14.4 An explanation of the recognition process, together with a list of eligible ECAIs is available on the authority's website.
- 14.5 In pursuance of paragraph 14.2 and 14.4 above, the authority has determined that the following ECAIs are to be considered eligible for the purposes of this Rule:
- > Moody's
 - > Fitch
 - > Standard and Poor's
- 14.6 The following table defines the mapping of these ECAIs' ratings to the credit quality steps mentioned earlier in Appendix 3, together with a summary of the applicable risk weights:

Long term mapping: Standardised Approach

Credit Quality Step	Risk Weights	Fitch's assessments	Moody's assessments	S&P assessments
1	20%	AAA to AA-	Aaa to Aa3	AAA to AA-
2	50%	A+ to A-	A1 to A3	A+ to A-
3	100%	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	350%	BB+ to BB-	Ba1 to Ba3	BB+ to B-
5	1250%	B+ or below	B1 and below	B+ and below

Long term mapping: IRB Approach

Credit Quality Step	Credit Assessments			Risk Weights		
	Fitch's assessments	Moody's assessments	S&P assessments	Most Senior Tranche	Base	Non-granular Pool
1	AAA	Aaa	AAA	7%	12%	20%
2	AA	Aa	AA	8%	15%	25%
3	A+	A1	A+	10%	18%	35%
4	A	A2	A	12%	20%	35%
5	A-	A3	A-	20%	35%	35%
6	BBB+	Baa1	BBB+	35%	50%	50%
7	BBB	Baa2	BBB	60%	75%	75%
8	BBB-	Baa3	BBB-	100%	100%	100%
9	BB+	Ba1	BB+	250%	250%	250%
10	BB	Ba2	BB	425%	425%	425%
11	BB-	Ba3	BB-	650%	650%	650%
Below 11	Below BB-	Below Ba3	Below Ba3	1250%	1250%	1250%

Short term mapping: Standardised Approach

Credit Quality Step	Risk Weights	Fitch's assessments	Moody's assessments	S&P assessments
1	20%	F1+, F1	P-1	A-1+, A-1
2	50%	F2	P-2	A-2

3	100%	F3	P-3	A-3
All other credit assessments	1250%	Below F3	NP	Below A-3

Short term mapping: IRB Approach

Credit Quality Step	Credit Assessments			Risk Weights		
	Fitch's assessments	Moody's assessments	S&P assessments	Most Senior Tranche	Base	Non-granular Pool
1	F1+, F1	P-1	A-1+, A-1	7%	12%	20%
2	F2	P-2	A-2	12%	20%	35%
3	F3	P-3	A-3	60%	75%	75%
All other credit assessments	Below F3	All short term ratings below A3, P3 and F3	All short term ratings below A-3	1250%	1250%	1250%

SECTION I.2 - SECURITISATION***Minimum requirements for recognition of significant credit risk transfer and calculation of risk-weighted exposure amounts and expected loss amounts for securitised exposures*****1.0.0 MINIMUM REQUIREMENTS FOR RECOGNITION OF SIGNIFICANT CREDIT RISK TRANSFER IN A TRADITIONAL SECURITISATION**

1.0.1 The originator credit institution of a traditional securitisation may exclude securitised exposures from the calculation of risk-weighted exposure amounts and expected loss amounts if either of the following conditions is fulfilled:

- (a) significant credit risk associated with the securitised exposures is considered to have been transferred to third parties;
- (b) the originator credit institution applies a 1250 % risk weight to all securitisation positions it holds in this securitisation or deducts these securitisation positions from own funds according to Article 57 (r).

1.0.2 Unless the competent authority decides in a specific instance that the possible reduction in risk weighted exposure amounts which the originator credit institution would achieve by this securitisation is not justified by a commensurate transfer of credit risk to third parties, significant credit risk shall be considered to have been transferred in the following cases:

- (a) the risk-weighted exposure amounts of the mezzanine securitisation positions held by the originator credit institution in this securitisation do not exceed 50 % of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;
- (b) where there are no mezzanine securitisation positions in a given securitisation and the originator can demonstrate that the exposure value of the securitisation positions that would be subject to deduction from own funds or a 1250 % risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the originator credit institution does not hold more than 20 % of the exposure values of the securitisation positions that would be subject to deduction from own funds or a 1250 % risk weight.

1.0.3 For the purposes of point 1.0.1, mezzanine securitisation positions mean securitisation positions to which a risk weight lower than 1250 % applies and that are more junior than the most senior position in this securitisation and more junior than any securitisation position in this securitisation to which:

- (a) in the case of a securitisation position subject to the Standardised approach in terms of paragraphs 2.0.1 to 2.7.2 of Appendix 3 Section I.4, a credit quality step 1; or
- (b) in the case of a securitisation position subject to the IRB approach in terms of paragraphs 3.1.1 to 3.8.5 of Appendix 3 Section I.4, a credit quality step 1 or 2 is assigned under Section I.3.

1.0.4 As an alternative to points 1.0.2 and 1.0.3 significant credit risk may be considered to have been transferred if the competent authority is satisfied that a credit institution has policies and methodologies in place, ensuring that the possible reduction of capital requirements which the originator achieves by the securitisation is justified by a commensurate transfer

of credit risk to third parties. The authority shall only be satisfied if the originator credit institution can demonstrate that such transfer of credit risk to third parties is also recognised for purposes of the credit institution's internal risk management and its internal capital allocation.

- 1.0.5 In addition to paragraphs 1.0.1 to 1.0.4, all the following conditions shall be met:
- (a) The securitisation documentation reflects the economic substance of the transaction.
 - (b) The securitised exposures are put beyond the reach of the originator credit institution and its creditors, including in bankruptcy and receivership. This shall be supported by the opinion of qualified legal counsel.
 - (c) The securities issued do not represent payment obligations of the originator credit institution.
 - (d) The transferee is a securitisation special-purpose entity (SSPE).
 - (e) The originator credit institution does not maintain effective or indirect control over the transferred exposures. An originator shall be considered to have maintained effective control over the transferred exposures if it has the right to repurchase from the transferee the previously transferred exposures in order to realise their benefits or if it is obligated to re-assume transferred risk. The originator credit institution's retention of servicing rights or obligations in respect of the exposures shall not of itself constitute indirect control of the exposures.
 - (f) Where there is a clean-up call option, the following conditions are satisfied:
 - (i) The clean-up call option is exercisable at the discretion of the originator credit institution;
 - (ii) The clean-up call option may only be exercised when 10% or less of the original value of the exposures securitised remains unamortised; and
 - (iii) The clean-up call option is not structured to avoid allocating losses to credit enhancement positions or other positions held by investors and is not otherwise structured to provide credit enhancement.
 - (g) The securitisation documentation does not contain clauses that
 - (i) other than in the case of early amortisation provisions, require positions in the securitisation to be improved by the originator credit institution including but not limited to altering the underlying credit exposures or increasing the yield payable to investors in response to a deterioration in the credit quality of the securitised exposures, or
 - (ii) increase the yield payable to holders of positions in the securitisation in response to a deterioration in the credit quality of the underlying pool.

2.0.0 MINIMUM REQUIREMENTS FOR RECOGNITION OF SIGNIFICANT CREDIT RISK TRANSFER IN A SYNTHETIC SECURITISATION

2.0.1 An originator credit institution of a synthetic securitisation may calculate risk-weighted exposure amounts, and, as relevant, expected loss amounts, for the securitised exposures in accordance with paragraphs 3.0.1 and 3.0.2 below, if either of the following is met:

- (a) significant credit risk is considered to have been transferred to third parties either through funded or unfunded credit protection; or,
- (b) the originator credit institutions applies a 1250% risk weight to all securitisation positions it holds in this securitisation or deducts these securitisation position from own funds, as calculated in terms of Banking Rule BR/03.

2.0.2 Unless the authority decides on a case-by-case basis that the possible reduction in risk weighted exposure amounts which the originator credit institution would achieve by this securitisation is not justified by a commensurate transfer of credit risk to third parties, significant credit risk shall be considered to have been transferred if either of the following conditions is met:

- (a) the risk-weighted exposure amounts of the mezzanine securitisation positions which are held by the originator credit institution in this securitisation do not exceed 50 % of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;
- (b) where there are no mezzanine securitisation positions in a given securitisation and the originator can demonstrate that the exposure value of the securitisation positions that would be subject to deduction from own funds or a 1 250 % risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the originator credit institution does not hold more than 20 % of the exposure values of the securitisation positions that would be subject to deduction from own funds or a 1250 % risk weight.

2.0.3 For the purposes of point 2.0.2, mezzanine securitisation positions means securitisation positions to which a risk weight lower than 1250 % applies and that are more junior than the most senior position in this securitisation and more junior than any securitisation positions in this securitisation to which:

- (a) in the case of a securitisation position subject to Standardised approach in terms of paragraphs 2.0.1 to 2.7.2 of Appendix 3 Section I.4, a credit quality step 1; or
- (b) in the case of a securitisation position subject to IRB approach in terms of paragraphs 3.1.1 to 3.8.5 of Appendix 3 Section I.4, a credit quality step 1 or 2 is assigned under Section I.3.

2.0.4 As an alternative to points 2.0.2 and 2.0.3, significant credit risk may be considered to have been transferred if the competent authority is satisfied that a credit institution has policies and methodologies in place to ensure that a possible reduction of capital requirements that the originator achieves by the securitisation is justified by a commensurate transfer of credit risk to third parties. The authority shall only be satisfied if the originator credit institution can demonstrate that such transfer of credit risk to third parties is also recognised for purposes of the credit institutions internal risk management and its internal capital allocation.

2.0.5 In addition, the transfer shall comply with the following conditions:

- (a) The securitisation documentation reflects the economic substance of the transaction.
- (b) The credit protection by which the credit risk is transferred complies with the eligibility and other requirements under Section I.1 of this Appendix for the recognition of such credit protection. For these purposes, special purpose entities shall not be recognised as eligible unfunded protection providers.
- (c) The instruments used to transfer credit risk do not contain terms or conditions that
 - (i) impose significant materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;
 - (ii) allow for the termination of the protection due to deterioration of the credit quality of the underlying exposures;
 - (iii) other than in the case of early amortisation provisions, require positions in the securitisation to be improved by the originator credit institution;
 - (iv) increase the credit institutions' cost of credit protection or the yield payable to holders of positions in the securitisation in response to a deterioration in the credit quality of the underlying pool.
- (d) An opinion is obtained from qualified legal counsel confirming the enforceability of the credit protection in all relevant jurisdictions.

3.0.0 ORIGINATOR CREDIT INSTITUTIONS' CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS FOR EXPOSURES SECURITISED IN A SYNTHETIC SECURITISATION

3.0.1 In calculating risk-weighted exposure amounts for the securitised exposures, where the conditions in paragraph 2.0.1 are met, the originator credit institution of a synthetic securitisation shall, subject to paragraphs 3.1.1 to 3.1.4, use the relevant calculation methodologies set out in Section I.5 and not those set out in the Standardised Approach. For credit institutions calculating risk-weighted exposure amounts and expected loss amounts under the IRB Approach, the expected loss amount in respect of such exposures shall be zero.

3.0.2 For clarity, paragraph 3.0.1 refers to the entire pool of exposures included in the securitisation. Subject to paragraphs 3.1.1 to 3.1.4, the originator credit institution is required to calculate risk-weighted exposure amounts in respect of all tranches in the securitisation in accordance with the provisions of part 4 including those relating to the recognition of credit risk mitigation. For example, where a tranche is transferred by means of unfunded credit protection to a third party, the risk weight of that third party shall be applied to the tranche in the calculation of the originator credit institution's risk-weighted exposure amounts.

3.1.0 Treatment of maturity mismatches in synthetic securitisations

3.1.1 For the purposes of calculating risk-weighted exposure amounts in accordance with paragraph 3.0.1, any maturity mismatch between the credit protection by which the tranching is achieved and the securitised exposures shall be taken into consideration in accordance with paragraphs 3.1.2 to 3.1.4.

- 3.1.2 The maturity of the securitised exposures shall be taken to be the longest maturity of any of those exposures subject to a maximum of five years. The maturity of the credit protection shall be determined in accordance with the Credit Risk Mitigation Techniques in Appendix 2: Section III.
- 3.1.3 An originator credit institution shall ignore any maturity mismatch in calculating risk-weighted exposure amounts for tranches appearing pursuant to Section I.5 with a risk weighting of 1250%. For all other tranches the maturity mismatch treatment set out in Appendix 2: Section III shall be applied in accordance with the following formula:

$$RW^* = [RW(SP) \times (t-t^*)/(T-t^*)] + [RW(Ass) \times (T-t)/(T-t^*)]$$

Where:

RW* is Risk-weighted exposure amounts for the purposes of Article 75(a) ;

RW(Ass) is Risk-weighted exposure amounts for exposures if they had not been securitised calculated on a pro-rata basis;

RW(SP) is Risk-weighted exposure amounts calculated under paragraph 3 if there was no maturity mismatch;

T is maturity of the underlying exposures expressed in years;

t is maturity of credit protection. expressed in years;

t* is 0.25.

SECTION I.3 - SECURITISATION*External Credit Assessments***1.0 REQUIREMENTS TO BE MET BY THE CREDIT ASSESSMENTS OF ECAIS**

1.1 To be used for the purposes of calculating risk-weighted exposure amounts under Section I.4 of the Appendix, a credit assessment of an eligible ECAI shall comply with the following conditions.

- (a) There shall be no mismatch between the types of payments reflected in the credit assessment and the types of payment to which the credit institution is entitled under the contract giving rise to the securitisation position in question.
- (b) It shall be available publicly to the market. Credit assessments are considered to be publicly available only if they have been published in a publicly accessible forum and they are included in the ECAI's transition matrix. Credit assessments that are made available only to a limited number of entities shall not be considered to be publicly available.
- (c) The credit assessment shall not be based or partly based on unfunded support provided by the credit institution itself. In such case, the credit institution shall consider the relevant position as if it were not rated and shall apply the relevant treatment of unrated positions as set out in Section I.4.

2.0 USE OF CREDIT ASSESSMENTS

2.1 A credit institution may nominate one or more eligible ECAIs the credit assessments of which shall be used in the calculation of its risk-weighted exposure amounts under Articles 94 to 101 (a 'nominated ECAI').

2.2 Subject to paragraphs 2.4 to 2.6 below, a credit institution must use credit assessments from nominated ECAIs consistently in respect of its securitisation positions.

2.3 Subject to paragraphs 2.4 to 2.5, a credit institution may not use an ECAI's credit assessments for its positions in some tranches and another ECAI's credit assessments for its positions in other tranches within the same structure that may or may not be rated by the first ECAI.

2.4 In cases where a position has two credit assessments by nominated ECAIs, the credit institution shall use the less favourable credit assessment.

2.5 In cases where a position has more than two credit assessments by nominated ECAIs, the two most favourable credit assessments shall be used. If the two most favourable assessments are different, the least favourable of the two shall be used.

2.6 Where credit protection eligible under Appendix 2 Section III.1 is provided directly to the SSPE, and that protection is reflected in the credit assessment of a position by a nominated ECAI, the risk weight associated with that credit assessment may be used. If the protection

is not eligible under Appendix 2 Section III.1, the credit assessment shall not be recognised. In the situation where the credit protection is not provided to the SSPE but rather directly to a securitisation position, the credit assessment shall not be recognised.

- 2.7 The authority shall, furthermore, take the necessary measures to ensure that, with regard to credit assessments relating to structured finance instruments, the ECAI is committed to make available publicly the explanation how the performance of pool assets affects its credit assessments.

3.0 MAPPING

- 3.1 The authority shall determine with which credit quality step in the tables set out in Section I.5 each credit assessment of an eligible ECAI shall be associated. In doing so the authorities shall differentiate between the relative degrees of risk expressed by each assessment. They shall consider quantitative factors, such as default and/or loss rates, and qualitative factors such as the range of transactions assessed by the ECAI and the meaning of the credit assessment.
- 3.2 The authority shall seek to ensure that securitisation positions to which the same risk weight is applied on the basis of the credit assessments of eligible ECAIs are subject to equivalent degrees of credit risk. This shall include modifying their determination as to the credit quality step with which a particular credit assessment shall be associated as appropriate.

SECTION I.4 - SECURITISATION

Calculation

1.0.0 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS

- 1.0.1 The risk-weighted exposure amount of a securitisation position shall be calculated by applying to the exposure value of the position the relevant risk weight as set out in this Section.
- 1.0.2 Subject to paragraph 1.0.3,
- (a) where a credit institution calculates risk-weighted exposure amounts under paragraphs 2.0.1 to 2.7.2, the exposure value of an on-balance sheet securitisation position shall be its balance sheet value;
 - (b) where a credit institution calculates risk-weighted exposure amounts under paragraphs 3.1.1 to 3.8.5, the exposure value of an on-balance sheet securitisation position shall be measured gross of value adjustments; and
 - (c) the exposure value of an off-balance sheet securitisation position shall be its nominal value multiplied by a conversion figure as prescribed in this Appendix. This conversion figure shall be 100% unless otherwise specified.
- 1.0.3 The exposure value of a securitisation position arising from a derivative instrument listed in Annex III, shall be determined in accordance with Annex IV.
- 1.0.4 Where a securitisation position is subject to funded credit protection, the exposure value of that position may be modified in accordance with and subject to the requirements in the Credit Risk Mitigation Appendix 2: Section III.
- 1.0.5 Where a credit institution has two or more overlapping positions in a securitisation, it will be required to the extent that they overlap to include in its calculation of risk-weighted exposure amounts only the position or portion of a position producing the higher risk-weighted exposure amounts. The credit institution may also recognise such overlap between specific risk capital charges for positions in the trading book and capital charges for positions in the banking book, provided that the credit institution is able to calculate and compare the capital charges for the relevant positions. For these purposes 'overlapping' occurs when the positions, wholly or partially, represent an exposure to the same risk such that the extent of the overlap there is a single exposure.

Where paragraph 1.1(c) of Section I.3 applies to positions in the ABCP, the credit institution may, subject to the approval of the authority, use the risk-weight assigned to a liquidity facility in order to calculate the risk-weighted exposure amount for the ABCP if the liquidity facility ranks *pari passu* with the ABCP so that they form overlapping positions and 100% of the ABCP issued by the programme is covered by liquidity facilities.

2.0.0 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE STANDARDISED APPROACH

2.0.1 Subject to paragraph 2.1.2, the risk-weighted exposure amount of a rated securitisation or re-securitisation position shall be calculated by applying to the exposure value the risk weight associated with the credit quality step with which the credit assessment has been determined to be associated by the authority in accordance with Section I.1 as laid down in the following Table 1.

Table 1

Credit quality step	1	2	3	4 (only for credit assessments other than short-term credit assessments)	all other credit quality steps
Securitisation positions	20%	50%	100%	350%	1250%
Re-securitisation positions	40%	100%	225%	650%	1250%

2.0.2 Subject to paragraphs 2.2.1 to 2.4.3, the risk-weighted exposure amount of an unrated securitisation position shall be calculated by applying a risk weight of 1250%.

2.1.0 Originator and sponsor credit institutions

2.1.1 For an originator credit institution or sponsor credit institution, the risk-weighted exposure amounts calculated in respect of its positions in a securitisation may be limited to the risk-weighted exposure amounts which would be calculated for the securitised exposures had they not been securitised subject to the presumed application of a 150% risk weight to all past due items and items belonging to ‘regulatory high risk categories’ amongst the securitised exposures.

2.2.0 Treatment of unrated positions

2.2.1 Credit institutions having an unrated securitisation position may apply the treatment set out in paragraph 2.2.2 for calculating the risk-weighted exposure amount for that position provided the composition of the pool of exposures securitised is known at all times.

2.2.2 A credit institution may apply the weighted-average risk weight that would be applied to the securitised exposures under the Standardised approach by a credit institution holding the exposures multiplied by a concentration ratio. This concentration ratio is equal to the sum of the nominal amounts of all the tranches divided by the sum of the nominal amounts of the tranches junior to or pari passu with the tranche in which the position is held including that tranche itself. The resulting risk weight shall not be higher than 1250% or lower than any risk weight applicable to a rated more senior tranche. Where the credit institution is unable to determine the risk weights that would be applied to the securitised exposures under the Standardised Approach, it shall apply a risk weight of 1250% to the position.

2.3.0 Treatment of securitisation positions in a second loss tranche or better in an ABCP programme

- 2.3.1 Subject to the availability of a more favourable treatment by virtue of the provisions concerning liquidity facilities in paragraphs 2.4.1 to 2.4.3, a credit institution may apply to securitisation positions meeting the conditions set out in paragraph 13 a risk weight that is the greater of (i) 100% or (ii) the highest of the risk weights that would be applied to any of the securitised exposures under the Standardised Approach by a credit institution holding the exposures.
- 2.3.2 For the treatment in the paragraph 2.3.1 to be available, the securitisation position shall be
- (a) in a tranche which is economically in a second loss position or better in the securitisation and the first loss tranche must provide meaningful credit enhancement to the second loss tranche;
 - (b) of a quality the equivalent of investment grade or better; and
 - (c) held by a credit institution which does not hold a position in the first loss tranche.

2.4.0 Treatment of unrated liquidity facilities

Eligible liquidity facilities

- 2.4.1 When the following conditions are met, to determine its exposure value a conversion figure of 50% may be applied to the nominal amount of a liquidity facility :
- (a) The liquidity facility documentation shall clearly identify and limit the circumstances under which the facility may be drawn.
 - (b) The facility shall not be able to be drawn so as to provide credit support by covering losses already incurred at the time of draw – for example, by providing liquidity in respect of exposures in default at the time of draw or by acquiring assets at more than fair value.
 - (c) The facility shall not be used to provide permanent or regular funding for the securitisation.
 - (d) Repayment of draws on the facility shall not be subordinated to the claims of investors other than to claims arising in respect of interest rate or currency derivative contracts, fees or other such payments, nor be subject to waiver or deferral.
 - (e) It shall not be possible for the facility to be drawn after all applicable credit enhancements from which the liquidity facility would benefit are exhausted.
 - (f) The facility must include a provision that results in an automatic reduction in the amount that can be drawn by the amount of exposures that are in default, where default has the meaning given to it under Articles 84 to 89, or where the pool of securitised exposures consists of rated instruments, that terminates the facility if the average quality of the pool falls below investment grade.

The risk weight to be applied shall be the highest risk weight that would be applied to any of the securitised exposures under the Standardised Approach by a credit institution holding the exposures.

Cash advance facilities

2.4.2 To determine its exposure value, a conversion figure of 0% may be applied to the nominal amount of a liquidity facility that is unconditionally cancellable provided that the conditions set out at paragraph 2.4.1 are satisfied and that repayment of draws on the facility are senior to any other claims on the cash flows arising from the securitised exposures.

2.5.0 Additional capital requirements for securitisations of revolving exposures with early amortisation provisions

2.5.1 In addition to the risk-weighted exposure amounts calculated in respect of its securitisation positions, an originator credit institution shall calculate a risk-weighted exposure amount according to the method set out in paragraphs 2.5.2 to 2.5.16 when it sells revolving exposures into a securitisation that contains an early amortisation provision.

2.5.2 The credit institution shall calculate a risk-weighted exposure amount in respect of the sum of the originator's interest and the investors' interest.

2.5.3 For securitisation structures where the securitised exposures comprise revolving and non-revolving exposures, an originator credit institution shall apply the treatment set out below to that portion of the underlying pool containing revolving exposures.

2.5.4 For these purposes, 'originator's interest' means the exposure value of that notional part of a pool of drawn amounts sold into a securitisation, the proportion of which in relation to the amount of the total pool sold into the structure determines the proportion of the cashflows generated by principal and interest collections and other associated amounts which are not available to make payments to those having securitisation positions in the securitisation.

To qualify as such the originator's interest may not be subordinate to the investors' interest.

'Investors' interest' means the exposure value of the remaining notional part of the pool of drawn amounts.

2.5.5 The exposure of the originator credit institution associated with its rights in respect of the originator's interest shall not be considered a securitisation position but as a pro rata exposure to the securitised exposures as if they had not been securitised.

Exemptions from early amortisation treatment

2.5.6 Originators of the following types of securitisation are exempt from the capital requirement in paragraph 2.5.1:

- (a) Securitisations of revolving exposures whereby investors remain fully exposed to all future draws by borrowers so that the risk on the underlying facilities does not return

to the originator credit institution even after an early amortisation event has occurred, and

- (b) securitisations where any early amortisation provision is solely triggered by events not related to the performance of the securitised assets or the originator credit institution, such as material changes in tax laws or regulations.

Maximum capital requirement

2.5.7 For an originator credit institution subject to the requirement in paragraph 2.5.1 the total of the risk-weighted exposure amounts in respect of its positions in the investors' interest and the risk-weighted exposure amounts calculated under paragraph 2.5.1 shall be no greater than the greater of

- (a) the risk-weighted exposure amounts calculated in respect of its positions in the investors' interest,
- (b) the risk-weighted exposure amounts that would be calculated in respect of the securitised exposures by a credit institution holding the exposures as if they had not been securitised in an amount equal to the investors' interest.

2.5.8 Deduction of net gains, if any, arising from the capitalisation of future income required under the Own Funds Rule BR/03 shall be treated outside the maximum amount indicated in paragraph 2.5.7.

Calculation of risk-weighted exposure amounts

2.5.9 The risk-weighted exposure amount to be calculated in accordance with paragraph 2.5.1 shall be determined by multiplying the amount of the investors' interest by the product of the appropriate conversion figure as indicated in paragraphs 2.5.11 to 2.5.16 and the weighted average risk weight that would apply to the securitised exposures if the exposures had not been securitised.

2.5.10 An early amortisation provision shall be considered to be 'controlled' where the following conditions are met.

- (a) The originator credit institution has an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortisation.
- (b) Throughout the duration of the transaction there is pro-rata sharing between the originator's interest and the investor's interest of payments of interest and principal, expenses, losses and recoveries based on the balance of receivables outstanding at one or more reference points during each month.
- (c) The amortisation period is considered sufficient for 90% of the total debt (originator's and investors' interest) outstanding at the beginning of the early amortisation period to have been repaid or recognised as in default.
- (d) The speed of repayment is no more rapid than would be achieved by straight-line amortisation over the period set out in condition (c).

2.5.11 In the case of securitisations subject to an early amortisation provision of retail exposures which are uncommitted and unconditionally cancellable without prior notice, where the

early amortisation is triggered by the excess spread level falling to a specified level, credit institutions shall compare the three-month average excess spread level with the excess spread levels at which excess spread is required to be trapped.

- 2.5.12 In cases where the securitisation does not require excess spread to be trapped, the trapping point is deemed to be 4.5 percentage points greater than the excess spread level at which an early amortisation is triggered.
- 2.5.13 The conversion figure to be applied shall be determined by the level of the actual three month average excess spread in accordance with Table 3.

Table 3

3 months average excess spread	Securitisations subject to a controlled early amortisation provision	Securitisations subject to a non-controlled early amortisation provision
	Conversion factor	Conversion factor
Above level A	0%	0%
Level A	1%	5%
Level B	2%	15%
Level C	10%	50%
Level D	20%	100%
Level E	40%	100%

- 2.5.14 In Table 3:
- ‘Level A’ means levels of excess spread less than 133.33% of the trapping level of excess spread but not less than 100% of that trapping level;
 - ‘Level B’ means levels of excess spread less than 100% of the trapping level of excess spread but not less than 75% of that trapping level;
 - ‘Level C’ means levels of excess spread less than 75% of the trapping level of excess spread but not less than 50% of that trapping level;
 - ‘Level D’ means levels of excess spread less than 50% of the trapping level of excess spread but not less than 25% of that trapping level; and
 - ‘Level E’ means levels of excess spread less than 25% of the trapping level of excess spread.
- 2.5.15 All other securitisations subject to a controlled early amortisation provision of revolving exposures shall be subject to a credit conversion figure of 90%.
- 2.5.16 All other securitisations subject to a non-controlled early amortisation provision of revolving exposures shall be subject to a credit conversion figure of 100%.

2.6.0 Recognition of credit risk mitigation on securitisation positions

2.6.1 Where credit protection is obtained on a securitisation position, the calculation of risk-weighted exposure amounts may be modified in accordance with the Credit Risk Mitigation techniques defined in Appendix 2: Section III.

2.7.0 Reduction in risk-weighted exposure amounts

2.7.1 As provided in the Own Funds Rule BR/03, in respect of a securitisation position in respect of which a 1250% risk weight applies, credit institutions may, as an alternative to including the position in their calculation of risk-weighted exposure amounts, deduct from own funds the exposure value of the position. For these purposes, the calculation of the exposure value may reflect eligible funded protection in a manner consistent with paragraph 2.6.1.

2.7.2 Where a credit institution makes use of the alternative indicated in paragraph 2.7.1, 12.5 times the amount deducted in accordance with that paragraph shall, for the purposes of paragraph 2.1.1, be subtracted from the amount specified in that paragraph as the maximum risk-weighted exposure amount to be calculated by the credit institutions there indicated.

3.0.0 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE INTERNAL RATINGS BASED APPROACH

3.1.0 Hierarchy of methods

3.1.1 For the purposes of paragraphs 7.0 to 10.0 of Appendix 3 Section I.1, the risk-weighted exposure amount of a securitisation positions shall be calculated in accordance with paragraphs 3.1.2 to 3.8.5.

3.1.2 For a rated position or a position in respect of which an inferred rating may be used, the Ratings Based Method set out in paragraphs 3.3.1 to 3.3.6 shall be used to calculate the risk-weighted exposure amount.

3.1.3 For an unrated position the Supervisory Formula Method as set out in paragraphs 3.4.1 to 3.4.3 shall be used except where the Internal Assessment Approach is permitted to be used as set out in paragraphs 3.1.7 and 3.1.8.

3.1.4 A credit institution other than an originator credit institution or a sponsor credit institution may only use the Supervisory Formula Method with the approval of the authority.

3.1.5 In the case of an originator or sponsor credit institution unable to calculate K_{irb} and which has not obtained approval to use the Internal Assessment Approach for positions in ABCP programmes, and in the case of other credit institutions where they have not obtained approval to use the Supervisory Formula Method or, for positions in ABCP programmes, the Internal Assessment Approach, a risk weight of 1250% shall be applied to

securitisation positions which are unrated and in respect of which an inferred rating may not be used.

Use of inferred ratings

- 3.1.6 When the following minimum operational requirements are satisfied a institution shall attribute to an unrated position an inferred credit assessment equivalent to the credit assessment of those rated positions (the ‘reference positions’) which are the most senior positions which are in all respects subordinate to the unrated securitisation position in question.
- (a) The reference positions must be subordinate in all respects to the unrated securitisation tranche.
 - (b) The maturity of the reference positions must be equal to or longer than that of the unrated position in question.
 - (c) On an ongoing basis, any inferred rating must be updated to reflect any changes in the credit assessment of the reference securitisation positions.

The ‘Internal Assessment Approach’ for positions in ABCP programmes

- 3.1.7 Subject to the approval of the authority, when the following conditions are satisfied, a credit institution may attribute to an unrated position in an asset backed commercial paper programme a derived rating as laid down in paragraph 3.1.8.
- (a) Positions in the commercial paper issued from the programme shall be rated positions.
 - (b) The credit institution shall satisfy the authority that its internal assessment of the credit quality of the position reflects the publicly available assessment methodology of one or more eligible ECAIs, for the rating of securities backed by the exposures of the type securitised.
 - (c) The ECAIs, the methodology of which shall be reflected as required by the point (b), shall include those ECAIs which have provided an external rating for the commercial paper issued from the programme. Quantitative elements – such as stress factors – used in assessing the position to a particular credit quality must be at least as conservative as those used in the relevant assessment methodology of the ECAIs in question
 - (d) In developing its internal assessment methodology the credit institution shall take into consideration relevant published ratings methodologies of the eligible ECAIs that rate the commercial paper of the ABCP programme. This consideration shall be documented by the credit institution and updated regularly, as outlined in (g) below.
 - (e) The credit institution’s internal assessment methodology shall include rating grades. There shall be a correspondence between such rating grades and the credit assessments of eligible ECAIs. This correspondence shall be explicitly documented.

- (f) The internal assessment methodology shall be used in the credit institution's internal risk management processes, including its decision making, management information and capital allocation processes.
- (g) Internal or external auditors, an ECAI, or the credit institution's internal credit review or risk management function shall perform regular reviews of the internal assessment process and the quality of the internal assessments of the credit quality of the credit institution's exposures to an ABCP programme. If the credit institution's internal audit, credit review, or risk management functions perform the review, then these functions shall be independent of the ABCP programme business line, as well as the customer relationship.
- (h) The credit institution shall track the performance of its internal ratings over time to evaluate the performance of its internal assessment methodology and shall make adjustments, as necessary, to that methodology when the performance of the exposures routinely diverges from that indicated by the internal ratings.
- (i) The ABCP programme shall incorporate underwriting standards in the form of credit and investment guidelines. In deciding on an asset purchase, the programme administrator shall consider the type of asset being purchased, the type and monetary value of the exposures arising from the provision of liquidity facilities and credit enhancements, the loss distribution, and the legal and economic isolation of the transferred assets from the entity selling the assets. A credit analysis of the asset seller's risk profile shall be performed and shall include analysis of past and expected future financial performance, current market position, expected future competitiveness, leverage, cash flow, and interest coverage, and debt rating. In addition, a review of the seller's underwriting standards, servicing capabilities, and collection processes shall be performed.
- (j) The ABCP programme's underwriting standards shall establish minimum asset eligibility criteria that, in particular,
 - (i) excludes the purchase of assets that are significantly past due or defaulted;
 - (ii) limits excess concentration to individual obligor or geographic area; and
 - (iii) limits the tenor of the assets to be purchased.
- (k) The ABCP program shall have collections policies and processes that take into account the operational capability and credit quality of the servicer. The programme shall mitigate seller/servicer risk through various methods, such as triggers based on current credit quality that would preclude co-mingling of funds.
- (l) The aggregated estimate of loss on an asset pool that the ABCP programme is considering purchasing must take into account all sources of potential risk, such as credit and dilution risk. If the seller-provided credit enhancement is sized based on only credit-related losses, then a separate reserve shall be established for dilution risk, if dilution risk is material for the particular exposure pool. In addition, in sizing the required enhancement level, the program shall review several years of historical information, including losses, delinquencies, dilutions, and the turnover rate of the receivables.

- (m) The ABCP programme shall incorporate structural features – for example wind down triggers - into the purchase of exposures in order to mitigate potential credit deterioration of the underlying portfolio.

The requirement for the assessment methodology of the ECAI to be publicly available may be waived by the authority where it is satisfied that due to the specific features of the securitisation – for example its unique structure - there is as yet no publicly available ECAI assessment methodology.

- 3.1.8 The unrated position shall be assigned by the credit institution to one of the rating grades described in paragraph 3.1.7. The position shall be attributed a derived rating the same as the credit assessments corresponding to that rating grade as laid down in paragraph 42. Where this derived rating is, at the inception of the securitisation at the level of investment grade or better, it shall be considered the same as an eligible credit assessment by an eligible ECAI for the purposes of calculating risk-weighted exposure amounts.

3.2.0 Maximum risk-weighted exposure amounts

- 3.2.1 For an originator credit institution, a sponsor credit institution, or for other credit institutions which can calculate K_{IRB} , the risk-weighted exposure amounts calculated in respect of its positions in a securitisation may be limited to that which would produce a capital requirement equal to the sum of 8% of the risk-weighted exposure amounts which would be produced if the securitised assets had not been securitised and were on the balance sheet of the credit institution plus the expected loss amounts of those exposures.

3.3.0 Ratings Based Method

- 3.3.1 Under the Ratings Based Method, the risk-weighted exposure amount of a rated securitisation or re-securitisation position shall be calculated by applying to the exposure value the risk weight associated with the credit quality step with which the credit assessment has been determined to be associated by the authority in accordance with Appendix 3 Section I.1 as set out in Table 4 multiplied by 1.06.

Table 4

Credit Quality Step		Securitisation Positions			Re-securitisation Positions	
Credit assessments other than short term	Short term credit assessments	A	B	C	D	E
1	1	7%	12%	20%	20%	30%
2		8%	15%	25%	25%	40%
3		10%	18%	35%	35%	50%
4	2	12%	20%		40%	65%
5		20%	35%		60%	100%
6		35%	50%		100%	150%
7	3	60%	75%		150%	225%
8		100%			200%	350%
9		250%			300%	500%
10		425%			500%	650%
11		650%			750%	850%
all other and unrated		1250%				

3.3.2 The weightings in column C of Table 4 shall be applied where the securitisation position is not a re-securitisation position and where the effective number of exposures securitised is less than six. For the remainder of the securitisation positions that are not re-securitisation positions, the weightings in column B shall be applied unless the position is in the most senior tranche of a securitisation, in which case the weightings in column A shall be applied. For re-securitisation positions the weightings in column E shall be applied unless the re-securitisation position is in the most senior tranche of the re-securitisation and none of the underlying exposures were themselves re-securitisation exposures, in which case column D shall be applied. When determining whether a tranche is the most senior, it is not required to take into consideration amounts due under interest rate or currency derivative contracts, fees due, or other similar payments.

3.3.3 In calculating the effective number of exposures securitised multiple exposures to one obligor shall be treated as one exposure. The effective number of exposures is calculated as:

$$N = \frac{(\sum_i EAD_i)^2}{\sum_i EAD_i^2}$$

where EAD_i represents the sum of the exposure values of all exposures to the i^{th} obligor. If the portfolio share associated with the largest exposure, C_1 , is available, the credit institution may compute N as $1/C_1$.

3.3.4 Credit risk mitigation on securitisation positions may be recognised in accordance with paragraphs 3.6.1 to 3.6.3.

3.4.0 Supervisory Formula Method

3.4.1 Subject to paragraphs 3.5.4 and 3.5.5, under the Supervisory Formula Method, the risk weight for a securitisation position shall be the risk weight to be applied in accordance with paragraph 3.4.2. However, the risk weight shall be no less than 20% for re-securitisation positions and no less than 7% for all other securitisation positions.

3.4.2 Subject to paragraphs 3.5.4 and 3.5.5, the risk weight to be applied to the exposure amount shall be

$$12.5 \times (S[L+T] - S[L]) / T$$

where

$$S[x] = \begin{cases} x & \text{when } x \leq Kirbr \\ Kirbr + K[x] - K[Kirbr] + (d \cdot Kirbr / \omega) (1 - e^{\omega(Kirbr - x) / Kirbr}) & \text{when } Kirbr < x \end{cases}$$

where

$$\begin{aligned}
h &= (1 - Kirbr / ELGD)^N \\
c &= Kirbr / (1 - h) \\
v &= \frac{(ELGD - Kirbr) Kirbr + 0.25 (1 - ELGD) Kirbr}{N} \\
f &= \left(\frac{v + Kirbr^2}{1 - h} - c^2 \right) + \frac{(1 - Kirbr) Kirbr - v}{(1 - h) \tau} \\
g &= \frac{(1 - c)c}{f} - 1 \\
a &= g \cdot c \\
b &= g \cdot (1 - c) \\
d &= 1 - (1 - h) \cdot (1 - Beta[Kirbr; a, b]) \\
K[x] &= (1 - h) \cdot ((1 - Beta[x; a, b]) x + Beta[x; a + 1, b] c).
\end{aligned}$$

$\tau = 1000$,

and $\omega = 20$.

In these expressions, Beta [x; a, b] refers to the cumulative beta distribution with parameters a and b evaluated at x.

T (the thickness of the tranche in which the position is held) is measured as the ratio of (a) the nominal amount of the tranche to (b) the sum of the exposure values of the exposures that have been securitised. For these purposes the exposure value of a derivative instrument listed in Annex III shall, where the current replacement cost is not a positive value, be the potential future credit exposure calculated in Accordance with Annex IV;

Kirbr is the ratio of (a) Kirb to (b) the sum of the exposure values of the exposures that have been securitised. Kirbr is expressed in decimal form (e.g. Kirb equal to 15% of the pool would be expressed as Kirbr of 0.15).

L (the credit enhancement level) is measured as the ratio of the nominal amount of all tranches subordinate to the tranche in which the position is held to the sum of the exposure values of the exposures that have been securitised. Capitalised future income shall not be included in the measured L. Amounts due by counterparties to derivative instruments listed in Annex III that represent tranches more junior than the tranche in question may be measured at their current replacement cost (without the potential future credit exposures) in calculating the enhancement level.

N is the effective number of exposures calculated in accordance with paragraph 3.3.3. In the case of re-securitisations, the credit institution shall look at the number of securitisation exposures in the pool and not the number of underlying exposures in the original pools from which the underlying securitisation exposures stem.

ELGD, the exposure-weighted average loss-given-default, is calculated as follows:

$$ELGD = \frac{\sum_i LGD_i \cdot EAD_i}{\sum_i EAD_i}$$

where LGD_i represents the average LGD associated with all exposures to the i^{th} obligor, where LGD is determined in accordance with the IRB Approach. In the case of resecuritisation, an LGD of 100% shall be applied to the securitised positions. When default and dilution risk for purchased receivables are treated in an aggregate manner within a securitisation (e.g. a single reserve or over-collateralisation is available to cover losses from either source), the LGD input shall be constructed as a weighted average of the LGD for credit risk and the 75% LGD for dilution risk. The weights shall be the stand-alone capital charges for credit risk and dilution risk respectively.

Simplified inputs

If the exposure value of the largest securitised exposure, C_1 , is no more than 3% of the sum of the exposure values of the securitised exposures, then for the purposes of the Supervisory Formula Method the credit institution may set $LGD = 50\%$ and N equal to either

$$N = \left(C_1 C_m + \left(\frac{C_m - C_1}{m - 1} \right) \max\{1 - m C_1, 0\} \right)^{-1}$$

or

$$N = 1 / C_1.$$

C_m is the ratio of the sum of the exposure values of the largest 'm' exposures to the sum of the exposure values of the exposures securitised. The level of 'm' may be set by the credit institution.

For securitisations involving retail exposures, the authorities may permit the Supervisory Formula Method to be implemented using the simplifications: $h = 0$ and $v = 0$.

- 3.4.3 Credit risk mitigation on securitisation positions may be recognised in accordance with paragraphs 3.6.1, 3.6.2 and 3.6.4 to 3.6.9.

3.5.0 Liquidity Facilities

- 3.5.1 The provisions in paragraphs 3.5.2 to 3.5.4 apply for the purposes of determining the exposure value of an unrated securitisation position in the form of certain types of liquidity facility.

Cash advance facilities

- 3.5.2 A conversion figure of 0% may be applied to the nominal amount of a liquidity facility that meets the conditions set out in paragraph 2.4.3.

Exceptional treatment where K_{IRB} cannot be calculated

- 3.5.3 When it is not practical for the credit institution to calculate the risk-weighted exposure amounts for the securitised exposures as if they had not been securitised, a credit institution may, on an exceptional basis and subject to the consent of the authority,

temporarily be allowed to apply the following method for the calculation of risk-weighted exposure amounts for an unrated securitisation position in the form of a liquidity facility that meets the conditions to be an ‘eligible liquidity facility’ set out in paragraph 2.4.1.

- 3.5.4 The highest risk weight that would be applied under the Standardised Approach to any of the securitised exposures had they not been securitised may be applied to the securitisation position represented by the liquidity facility. To determine the exposure value of the position a conversion figure of 50% may be applied to the nominal amount of the liquidity facility if the facility has an original maturity of one year or less. A conversion factor of 100% shall be applied.

3.6.0 Recognition of credit risk mitigation in respect of securitisation positions

Funded protection

- 3.6.1 Eligible funded protection is limited to that which is eligible for the calculation of risk-weighted exposure amounts under the Standardised Approach as laid down under Appendix 2 Section III.1 and recognition is subject to compliance with the relevant minimum requirements as laid down under those Articles.

Unfunded protection

- 3.6.2 Eligible unfunded protection and unfunded protection providers are limited to those which are eligible under Appendix 2 Section III.1 and recognition is subject to compliance with the relevant minimum requirements laid down under those Articles.

Calculation of capital requirements for securitisation positions with credit risk mitigation

Ratings Based Method

- 3.6.3 Where risk-weighted exposure amounts are calculated using the Ratings Based Method, the exposure value and/or the risk-weighted exposure amount for a securitisation position in respect of which credit protection has been obtained may be modified in accordance with the provisions of Appendix 2: Section III as they apply for the calculation of risk-weighted exposure amounts under the Standardised Approach.

Supervisory Formula Method – full protection

- 3.6.4 Where risk-weighted exposure amounts are calculated using the Supervisory Formula Method, the credit institution shall determine the ‘effective risk weight’ of the position. It shall do this by dividing the risk-weighted exposure amount of the position by the exposure value of the position and multiplying the result by 100.
- 3.6.5 In the case of funded credit protection, the risk-weighted exposure amount of the securitisation position shall be calculated by multiplying the funded protection-adjusted exposure amount of the position (E^* , as calculated under Appendix 2 Section III.1 for the calculation of risk-weighted exposure amounts under the Standardised Approach taking the amount of the securitisation position to be E) by the effective risk weight.

- 3.6.6 In the case of unfunded credit protection, the risk-weighted exposure amount of the securitisation position shall be calculated by multiplying G_A (the amount of the protection adjusted for any currency mismatch and maturity mismatch in accordance with the provisions of Appendix 2: Section III by the risk weight of the protection provider; and adding this to the amount arrived at by multiplying the amount of the securitisation position minus G_A by the effective risk weight.

Supervisory formula method - partial protection

- 3.6.7 If the credit risk mitigation covers the ‘first loss’ or losses on a proportional basis on the securitisation position, the credit institution may apply the provisions in paragraphs 3.6.4 to 3.6.6.
- 3.6.8 In other cases the credit institution shall treat the securitisation position as two or more positions with the uncovered portion being considered the position with the lower credit quality. For the purposes of calculating the risk-weighted exposure amount for this position, the provisions in paragraphs 3.4.1 to 3.4.3 shall apply subject to the modifications that ‘T’ shall be adjusted to e^* in the case of funded protection; and to $T-g$ in the case of unfunded protection, where e^* denotes the ratio of E^* to the total notional amount of the underlying pool, where E^* is the adjusted exposure amount of the securitisation position calculated in accordance with the provisions of Appendix 2 Section III as they apply for the calculation of risk-weighted exposure amounts under Appendix 2 Section I.1 taking the amount of the securitisation position to be E ; and g is the ratio of the nominal amount of credit protection (adjusted for any currency or maturity mismatch in accordance with the provisions of Appendix 2: Section III) to the sum of the exposure amounts of the securitised exposures. In the case of unfunded credit protection the risk weight of the protection provider shall be applied to that portion of the position not falling within the adjusted value of ‘T’.

3.7.0 Additional capital requirements for securitisations of revolving exposures with early amortisation provisions

- 3.7.1 In addition to the risk-weighted exposure amounts calculated in respect of its securitisation positions, an originator credit institution shall be required to calculate a risk-weighted exposure amount according to the methodology set out in paragraphs 2.5.1 to 2.5.16 when it sells revolving exposures into a securitisation that contains an early amortisation provision.
- 3.7.2 For the purposes of paragraph 3.7.1, paragraphs 3.7.3 and 3.7.4 shall replace paragraphs 2.5.4 and 2.5.5.
- 3.7.3 For the purposes of these provisions, “originator’s interest” shall be the sum of:
- (a) the exposure value of that notional part of a pool of drawn amounts sold into a securitisation, the proportion of which in relation to the amount of the total pool sold into the structure determines the proportion of the cashflows generated by principal and interest collections and other associated amounts which are not available to make payments to those having securitisation positions in the securitisation; plus
 - (b) the exposure value of that part of the pool of undrawn amounts of the credit lines, the drawn amounts of which have been sold into the securitisation, the proportion of which to the total amount of such undrawn amounts is the same as the proportion of

the exposure value described in point (a) to the exposure value of the pool of drawn amounts sold into the securitisation.

To qualify as such the originator's interest may not be subordinate to the investors' interest.

"Investors' interest" means the exposure value of the notional part of the pool of drawn amounts not falling within point (a) plus the exposure value of that part of the pool of undrawn amounts of credit lines, the drawn amounts of which have been sold into the securitisation, not falling within point (b).

- 3.7.4 The exposure of the originator credit institution associated with its rights in respect of that part of the originator's interest described in paragraph 3.7.3 point (a) shall not be considered a securitisation position but as a pro rata exposure to the securitised drawn amounts exposures as if they had not been securitised in an amount equal to that described in paragraph 3.7.3 point (a). The originator credit institution shall also be considered to have a pro rata exposure to the undrawn amounts of the credit lines, the drawn amounts of which have been sold into the securitisation, in an amount equal to that described in paragraph 3.7.3 point (b).

3.8.0 Reduction in risk-weighted exposure amounts

- 3.8.1 The risk-weighted exposure amount of a securitisation position to which a 1250% risk weight is applied may be reduced by 12.5 times the amount of any value adjustments made by the credit institution in respect of the securitised exposures. To the extent that value adjustments are taken account of for this purpose they shall not be taken account of for the purposes of the calculation indicated in paragraph 4.1.0 of Appendix 2 Section II.2.
- 3.8.2 The risk-weighted exposure amount of a securitisation position may be reduced by 12.5 times the amount of any value adjustments made by the credit institution in respect of the position.
- 3.8.3 As provided in the Own Funds Rule BR/03, in respect of a securitisation position in respect of which a 1250% risk weight applies, credit institutions may, as an alternative to including the position in their calculation of risk-weighted exposure amounts, deduct from own funds the exposure value of the position.
- 3.8.4 For the purposes of paragraph 3.8.3
- (a) the exposure value of the position may be derived from the risk-weighted exposure amounts taking into account any reductions made in accordance with paragraphs 3.8.1 and 3.8.2;
 - (b) the calculation of the exposure value may reflect eligible funded protection in a manner consistent with the methodology prescribed in paragraphs 3.6.1 to 3.6.8;
 - (c) where the Supervisory Formula Method is used to calculate risk-weighted exposure amounts and $L \leq K_{IRBR}$ and $[L+T] > K_{IRBR}$ the position may be treated as two positions with L equal to K_{IRBR} for the more senior of the positions.

- 3.8.5 Where a credit institution makes use of the alternative indicated in paragraph 3.8.3, 12.5 times the amount deducted in accordance with that paragraph shall, for the purposes of paragraph 3.2.1, be subtracted from the amount specified in that paragraph as the maximum risk-weighted exposure amount to be calculated by the credit institutions there indicated.
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