



Insights

Basel Committee Finalizes Revisions to Securitization Framework

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On December 11, 2014, the Basel Committee on Banking Supervision (BCBS) published final revisions to the securitization framework for determining regulatory capital requirements on exposures arising from securitization transactions. The recent financial crisis highlighted weaknesses in the Basel II securitization framework, including mechanistic reliance on external ratings, lack of risk sensitivity, cliff effects, and insufficient capital for certain exposures. BCBS seeks to address these issues through the final revisions to the securitization framework.

The most significant revisions to the existing Basel II securitization framework include:

- **Revised Hierarchy of Approaches:** The revised hierarchy reduces reliance on external ratings and also simplifies and limits the number of approaches. The new hierarchy is (1) Internal Ratings-Based Approach; (2) External Ratings-Based Approach (where the applicable jurisdiction permits the use of credit ratings); and (3) Standardized Approach.
- **Added Risk Drivers:** The revised securitization framework introduces additional risk drivers to address weaknesses in the Basel II securitization framework that resulted in under-capitalization of certain securitization exposures. For example, the revised securitization framework adds an explicit adjustment to take into account the maturity of a securitization's tranche.
- **Increased Required Amount of Regulatory Capital Banks Must Hold for Securitization Exposures**

The new securitization framework will come into effect in January 2018.

For a copy of the final revised securitization framework, [click here](#).

For a copy of the related BCBS press release, [click here](#).