



Insights

Basel Committee & IOSCO Propose Criteria for Simple, Transparent, and Comparable Securitizations

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On December 11, 2014, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) issued a Consultative Document proposing criteria that may be used by transaction parties and regulators to assist in the development of simple and transparent securitization structures. They believe that application of these criteria could contribute to building sustainable securitization markets. Earlier this fall, BCBS agreed to consider in 2015 how to incorporate the BCBS-IOSCO criteria into the securitization capital framework.

The Consultative Document identifies 14 criteria of simplicity, transparency, and comparability (proposed STC criteria) that, if satisfied, BCBS and IOSCO believe could indicate that a securitization has a simple, transparent, and comparable structure that could assist market participants in evaluating the risks of the transaction.

For purposes of the Consultative Document:

- **Simplicity** refers to the homogeneity of the underlying assets with simple characteristics and a transaction structure that is not overly complex.
- Criteria on **transparency** provide investors with sufficient information on the underlying assets, the structure of the transactions, and the parties involved in the transaction in a manner that supports investors in their assessment.
- Criteria promoting **comparability** could assist investors in their understanding of the investment and enable a more straightforward comparison across securitization products with an asset class.

The proposed STC criteria are organized based on three categories of risk:

Asset Risk

- Nature of the assets
- Asset performance history
- Payment status
- Consistency of underwriting
- Asset selection and transfer
- Initial and ongoing data

Structural Risk

- Redemption cash flow
- Currency and interest rate asset and liability mismatches
- Payment priorities and observability
- Voting and enforcement rights
- Document disclosure and legal review
- Alignment of interest

Fiduciary and Servicer Risk

- Fiduciary and contractual responsibilities
- Transparency to investors

The proposed STC criteria are focused on term securitizations. Short-term securitizations (including asset-backed commercial paper transactions) are outside of the scope of the proposed STC criteria. However, in the Consultative Document, BCBS and IOSCO request comment regarding whether criteria comparable to the proposed STC criteria should be developed for the short-term securitization market.

Comments on the Consultative Document are due by February 13, 2015.

For a copy of the Consultative Document, [click here](#).

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