



EBA Consultation Paper Draft Guidelines on the determination of the weighted average maturity (WAM) of the contractual payments due under the tranche

This document provides the response of the Dutch Securitisation Association (“DSA”) on the EBA Consultation Paper dated 31 July 2019.

We welcome the opportunity to commend on this Consultation Paper.

DSA Background

The Dutch Securitisation Association was established in 2012 as representative body of the Dutch securitisation industry. Our membership includes issuers of securitisations both from the insurance and banking industry, and we are operating in close cooperation with the Dutch investor community.

Our purpose is to create a healthy and well-functioning Dutch securitisation market. We try to achieve this i.a. by providing a standard for documentation and reporting of Dutch RMBS and Consumer ABS transactions, promoting (in close cooperation with PCS) further standardisation and improvements in transparency, and active involvement in consultations about future regulation of the securitisation market.

Against this background, we would like to commend, on behalf of all Dutch issuers joined in the DSA, on the EBA Consultation Paper on Draft Guidelines on the determination of the weighted average maturity (WAM) of the contractual payments due under the tranche (individual DSA members may also provide their own comments).

Our comments

General:

Since the DSA is not an issuer of (or investor in) securitisations, we are not in a position to provide examples/calculations substantiating some of our opinions expressed in the answers below. We hope and expect that individual institutions will be able to provide you with the required calculations.

We are strongly recommending to stay as close as possible to the existing market practice, so allowing realistic values for CPRs and Defaults and Recoveries, rather than zero's, and allowing optionality and especially step-up calls to be allowed in modeling for traditional securitisations.

Q1: Do you agree that the contractual payments due under the contract that provides credit protection by virtue of which the credit risk is transferred, and not those contractual payments of the borrowers in relation to the underlying exposures, are the ones to be considered for determining the WAM of a tranche in a synthetic securitisation from a regulatory perspective? If not, please provide evidence supporting your views.

We do not agree.

*Art 257.1.a) may not have been designed with synthetic securitisations in mind, and we appreciate the complication of interpreting “contractual payments due under the tranche” in this respect. However, using the protection premia of subordinated tranches in order to determine the WAM of a retained senior note, so using the contractual payments of protection premia of subordinated tranches in order to determine the WAM of **another** tranche (the senior tranche), also seems to be an interpretation that is not aligned with the level 1 text. Furthermore we note that the proposed interpretation leads to counterintuitive results where it seems to result in shorter WAMs for senior tranches in pro-rata amortisation structures compared to sequential amortisation structures.*

Alternatively we suggest that “contractual payments” for synthetic securitisations should be interpreted as the synthetic reductions in the relevant exposure and should therefore mimic the approach taken for traditional securitisations (which is in fact also the economic purpose of a synthetic securitisation). The cash flows of the reference obligations should be modeled along the synthetic liability side, based on similar assumptions as used for traditional securitisations, which will provide the relevant cash flows to determine the WAM of each tranche. As a minimum, this approach should be used for the senior tranche.

Q2: . Do you agree that, in the case of funded credit protection, the reimbursement of the collateral pledged, and any interest or coupons collected by the protection providers from the collateral, should be considered contractual payments due under the tranche along with the premia, as referred to between brackets, and highlighted in italic, in paragraph 20 of the Rationale; paragraphs 12, 57 and 64 of the draft guidelines; and paragraphs 7, 13 and 14 of the impact assessment? If not, please provide evidence supporting your views.

*We do not agree,
As indicated in your explanatory text, the mitigation of counterparty risk is unrelated to the use of WAM as input for calculating credit risk weights.
Also, this may produce (another) potentially counterintuitive result, since funded protection may lead to higher WAMs than unfunded protection.*

Again, we would recommend to stay with the current market practice, and look at the amortisation of the assets in determining the maturity profile of the tranche.

Q3: Do you agree that zero prepayments should be assumed on the performing portfolio for calculating the WAM of a tranche? Do you think that such assumption has a significant impact on the calculation of risk-weighted exposure amounts for certain asset classes or for certain tranches, depending also on their seniority? If so, please provide evidence supporting your views.

*We do not agree.
Prepayments is a standard concept in modeling securitisations. Investors need to base their decisions on realistic prepayment assumptions.
Institutions, and certainly those that are allowed to use the IRB approach, should very well be able to accurately estimate the expected prepayments in most asset classes.
As an alternative for a zero CPR you could also consider to set a CPR per asset class and/or jurisdiction based on a prudent interpretation of data from transparency sources like the EDW or the DSA Investor Reports.*

Q4: Do you agree that zero defaults should be assumed on the performing portfolio for calculating the WAM of a tranche? Do you think that such assumption has a significant impact on the calculation of risk-weighted exposure amounts for certain asset classes or for certain tranches, depending also on their seniority? If so, please provide evidence supporting your views.

*We do not agree,
Defaults is a standard concept in modeling securitisations. Investors need to base their decisions on realistic default assumptions.
Institutions, and certainly those that are allowed to use the IRB approach, should very well be able to accurately estimate the expected defaults in most asset classes.
As an alternative for zero defaults you could also consider to set a Default rate per asset class and/or jurisdiction based on a prudent interpretation of data from transparency sources like the EDW or the DSA Investor Reports.*

Q5: Do you consider the assumption that, in the case of the existing non-performing exposures at the time of the calculation of WAM, the principal and interest payments in respect of such exposures throughout the life of the securitisation should be assumed zero, and the asset model should also assume that no exposure will cure in the future, reasonable? If not, would the added complexity introduced by a differentiated modelling of payments

received on non-performing exposures be justified in terms of the impact on risk-weighted exposure amounts? If so, could you provide evidence supporting your views? [Please substantiate your views.]

We do not support this assumption.

If you assume zero cash to be collected, it is difficult to still see this as a securitisation.

On the other hand, for traditional NPL securitisations, the legal final maturity will be applicable anyway.

Q6: In synthetic securitisations, do you agree that no modelling of future non-occurred losses should be allowed in order to calculate the future outstanding balance of the underlying portfolio and the tranches? Or do you think that the modelling of losses should be taken into account? If so, could you provide the rationale supporting your views and the impact on risk-weighted exposure amounts?

We do not agree.

In line with our answer on Q4 (defaults should not assumed to be zero), in order to be consistent, future losses should not be set at zero.

Q7: In synthetic securitisations, do you agree that only clean-up calls in accordance with Article 245(4)(f) of the CRR should be taken into account to determine the WAM? In your view, should time calls, which can be exercised by the protection buyer after the WAL of the underlying portfolio (as defined in paragraph 53 of the Guidelines on the STS criteria for ABCP securitisation), also be taken into account? If so, could you provide the rationale supporting your views and the impact on risk-weighted exposure amounts?

We do agree that only clean-up calls will have to be taken into account to determine the WAM for synthetic securitisations.

Q8: What are your views on the model validation and quality review of the asset and liability models and on due diligence on third party model providers? Do you perceive it as too burdensome? If so, please provide alternative proposals to account for compliance of third party model providers with these guidelines and for the assessment of the quality and accuracy of the asset and liability models.

We do generally agree with the recommendation of EBA, but would like to point to the fact that the calculations for the purpose of determining the WAM are rather straightforward as compared to full asset and liability cash flow models used for future projections and pricing of securitisation transactions.

So we would recommend a relatively light regime for WAM calculations.

Especially the validation by separate staff of both the originator and the model provider (if any) would be unnecessary time consuming and costly for the sole purpose of a WAM calculation.

Annual review is also unnecessary burdensome in this case.

Q9: Are there any other issues that you would consider necessary to comment on? If so, please provide them with the alternatives to the wording adopted in these draft guidelines.

No.