

Chapter 9

Securitisation

9.1 Application and purpose

Application

- 9.1.1 **R** ■ BIPRU 9.1 applies to a *BIPRU firm*.

Purpose

- 9.1.2 **G** Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the purpose of ■ BIPRU 9 is to implement:

- (1) Articles 94 to 96, paragraphs (1) and (5) of Article 97 , Article 99, Article 100(1) and Article 101;
- (2) Points 8 and 9 of Annex V; and
- (3) Parts 2, 3 (in part) and 4 of Annex IX;

of the *Banking Consolidation Directive*.

General obligations: Risk-weighted exposures

- 9.1.3 **R** A *firm* must calculate the *risk weighted exposure amount* for *securitisation positions* in accordance with ■ BIPRU 9.

- 9.1.4 **G** A *firm* should apply the *securitisation* framework set out in this chapter for determining regulatory capital requirements on *exposures* arising from *traditional securitisations* and from *synthetic securitisations* and from structures that contain features of both.

- 9.1.5 **G** Since transactions may be structured in many different ways, the capital treatment of a position should be determined on the basis of its economic substance rather than merely its legal form. A *firm* should look to the economic substance of a transaction to determine whether the *securitisation* framework is applicable for purposes of determining regulatory capital. A *firm* should consult the *appropriate regulator* when there is uncertainty about whether a given transaction should be considered a *securitisation*.

General obligations: Systems

- 9.1.6 **R** The risks arising from *securitisation* transactions in relation to which a *firm* is investor, *originator* or *sponsor*, including reputational risks, must be evaluated and addressed through appropriate policies and procedures, to

ensure in particular that the economic substance of the transaction is fully reflected in risk assessment and management decisions.

[Note: BCD Annex V point 8]

- 9.1.7** **G** A firm that is a party to a *securitisation* should fully understand the risks it has assumed or retained. In particular it should do so in order that it can correctly determine in accordance with ■ BIPRU 9 the capital effects of the *securitisation*.
- 9.1.8** **G** The *appropriate regulator* expects an *originator* to continue to monitor any risks that it may be subject to when it has excluded the *securitised exposures* from its calculation of *risk weighted exposure amounts*. The *originator* should consider capital planning implications where risks may return and the impact that *securitisation* has on the quality of the remaining *exposures* held by the *originator*.
- 9.1.8A** **G**
- (1) The *appropriate regulator* expects firms to conduct regular stress testing in relation to their *securitisation* activities and off-balance sheet *exposures*. The stress tests should consider the *firm-wide* impact of those activities and *exposures* in stressed market conditions and the implications for other sources of risk, for example, credit risk, concentration risk, counterparty risk, *market risk*, *liquidity risk* and reputational risk. Stress testing of *securitisation* activities should take into account both existing securitisations and pipeline transactions, as there is a risk that these would not be completed in a stressed market scenario.
 - (2) The frequency and extent of the stress testing should be determined by the materiality of the *firm's* *securitisation* activities and off-balance sheet *exposures*.
 - (3) A *firm* should have procedures in place to assess and respond to the results produced from the stress testing and these should be taken into account under the *overall Pillar 2 rule*.
- Trading book and non-trading book**
- 9.1.9** **G** ■ BIPRU 9 deals with:
- (1) requirements for investors, *originators* and *sponsors* of *securitisations* of *non-trading book exposures*;
 - (2) the calculation of *risk weighted exposure amount* for *securitisation* positions for the purposes of calculating either the *credit risk capital component* or the *counterparty risk capital component*; and
 - (3) the requirements that investors, *originators* and *sponsors* of *securitisations* in the *trading book* will have to meet (■ BIPRU 9.3.1AR, ■ BIPRU 9.3.15R to ■ BIPRU 9.3.20R and ■ BIPRU 9.6.1A R).
- 9.1.10** **G** ■ BIPRU 7 sets out the calculation of the *market risk capital requirement* for *securitisation* positions held in the *trading book*.

9.2 Approach to be used

9.2.1

R

- (1) Where a *firm* uses the *standardised approach* set out in ■ BIPRU 3 (Standardised approach to credit risk) for the calculation of *risk weighted exposure amount* for the *standardised credit risk exposure class* to which the *securitised exposures* would otherwise be assigned under ■ BIPRU 3, then it must calculate the *risk weighted exposure amount* for a *securitisation position* in accordance with the *standardised approach to securitisations* set out in ■ BIPRU 9.9, ■ BIPRU 9.10, ■ BIPRU 9.11 and ■ BIPRU 9.13.
- (2) In all other cases it must calculate a *risk weighted exposure amount* in accordance with the *IRB approach to securitisations* set out in ■ BIPRU 9.9, ■ BIPRU 9.10, ■ BIPRU 9.12, ■ BIPRU 9.13 and ■ BIPRU 9.14.

[Note: BCD Article 94]

9.3 Requirements for originators and sponsors

- 9.3.1** **R** (1) Where significant credit risk associated with *securitised exposures* has been transferred from the *originator* in accordance with the terms of ■ BIPRU 9.4 or ■ BIPRU 9.5, that *originator* 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*; and
 - (b) in the case of a *synthetic securitisation*, calculate *risk weighted exposure amounts* and, as relevant, *expected loss amounts* in respect of such *exposures*, in accordance with the provisions of ■ BIPRU 9.5.
- (2) Where (1) applies, the *originator* must calculate the *risk weighted exposure amounts* prescribed in this chapter for the positions it may hold in the *securitisation*.
- (3) Where the *originator* fails to transfer significant credit risk in accordance with (1), it need not calculate *risk weighted exposure amounts* for any positions it may hold in the *securitisation* in question.
- [Note: BCD Article 95]
- 9.3.1A** **R**
- 9.3.2** **G**
- 9.3.3** **G** [deleted]
- 9.3.4** **G** [deleted]
- 9.3.5** **G** (1) [deleted]
(2) [deleted]
[deleted]

- 9.3.6 **G** An *originator* should not adjust its assessment of the transfer of risk in order to reflect uncertainties related to the effectiveness of a *securitisation* under ■ BIPRU 9.4 or ■ BIPRU 9.5. Instead the *originator* should treat the terms of ■ BIPRU 9.4 or ■ BIPRU 9.5 as not having been satisfied.
- 9.3.7 **R** Significant credit risk will be considered to have been transferred for *originators* in the following cases:
- (1) the *risk weighted exposure amounts* of the *mezzanine securitisation positions* held by the *originator* in the *securitisation* do not exceed 50% of the *risk weighted exposure amounts* of all *mezzanine securitisation positions* existing in this *securitisation*;
 - (2) 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 *capital resources* or a 1250% *risk weight* exceeds a reasoned estimate of the expected loss on the *securitised exposures* by a substantial margin, the *originator* does not hold more than 20% of the exposure values of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% *risk weight*.
- [Note: BCD, Annex IX, Part 2, Point 1, paragraph 1a and Point 2 paragraph 2a]
- 9.3.8 **R** An *originator* must notify the *appropriate regulator* that it is relying on the deemed transfer of significant credit risk under ■ BIPRU 9.3.7R within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:
- (1) the *risk weighted exposure amount* of the *securitised exposures* and retained *securitisation positions*;
 - (2) the *exposure value* of the *securitised exposures* and the retained *securitisation positions*;
 - (3) details of the *securitisation positions*, including rating, *exposure value* broken down by *securitisation positions* sold and retained;
 - (4) a statement that sets out why the *firm* is satisfied that the reduction in *risk weighted exposure amounts* is justified by a commensurate transfer of credit risk to third parties;
 - (5) any relevant supporting documents, for example, a summary of the transaction.
- 9.3.9 **G** In the event that the *appropriate regulator* decides that the possible reduction in *risk weighted exposure amounts* which the *originator* would achieve by the *securitisation* referred to in ■ BIPRU 9.3.7R is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 55J of the *Act* (Variation etc on the Authority's own initiative) to require the *firm* to increase its *risk weighted exposure amount* to an amount commensurate with the *appropriate regulator's* assessment of the transfer of credit risk to third parties.

9.3.10	G	An <i>originator</i> may be granted a <i>waiver</i> of the requirements in ■ BIPRU 9.3.7R and ■ BIPRU 9.3.8R.
9.3.11	D	<p>An <i>originator's</i> application for a <i>waiver</i> of the requirements in ■ BIPRU 9.3.7R and ■ BIPRU 9.3.8R must demonstrate that the following conditions are satisfied:</p> <ol style="list-style-type: none"> (1) it has policies and methodologies in place which ensure that the possible reduction of capital requirements which the <i>originator</i> achieves by the <i>securitisation</i> is justified by a commensurate transfer of credit risk to third parties; and (2) that such transfer of credit risk to third parties is also recognised for the purposes of the <i>originator's</i> internal risk management and its internal capital allocation. <p>[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1c and Point 2 paragraph 2c]</p>
9.3.12	G	■ BIPRU 1.3.10 G sets out the <i>appropriate regulator's</i> approach to the granting of <i>waivers</i> . The conditions in ■ BIPRU 9.3.11D are minimum requirements. Satisfaction of those does not automatically mean the <i>appropriate regulator</i> will grant the relevant <i>waiver</i> . The <i>appropriate regulator</i> will in addition also apply the tests in section 138A (Modification or waiver of rules) of the Act.
9.3.13	G	When considering an application for a <i>waiver</i> of the requirements in ■ BIPRU 9.3.7R and ■ BIPRU 9.3.8R, the <i>appropriate regulator</i> may undertake a visit to the <i>firm</i> in order to examine the <i>firm's</i> risk management and governance arrangements. Before such a visit, the <i>appropriate regulator</i> may request information from the <i>firm</i> additional or supplementary to that provided in the <i>waiver</i> application.
9.3.14	G	An <i>originator</i> should clearly state the scope of the <i>waiver</i> of the requirements in ■ BIPRU 9.3.7R and ■ BIPRU 9.3.8R it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the <i>waiver</i> . Relevant asset classes may therefore be defined according to a <i>firm's</i> internal usage of terms.
		Origination criteria
9.3.15	R	
9.3.16	R	
9.3.17	R	
9.3.18	R	
9.3.19	R	

- 9.3.20 **R**
- 9.3.21 **G** Subject to ■ BIPRU 9.3.22G, ■ BIPRU 9.15.9R and ■ BIPRU 9.15.10R, where the *originator or sponsor* of a *securitisation* fails to meet any of the requirements in ■ BIPRU 9.3.18R to ■ BIPRU 9.3.20R (disclosure requirements) in any material respect by reason of its negligence or omission, the *appropriate regulator* will use its powers under section 55J (Variation etc on the Authority's own initiative) of the *Act* to impose an additional *risk weight* of no less than 250% (capped at 1250%) of the *risk weight* that would otherwise apply to the relevant *securitisation positions* under the *rules* in ■ BIPRU 9.11 to ■ BIPRU 9.14. The additional *risk weight* imposed will be progressively increased with each relevant, subsequent infringement of the requirements in ■ BIPRU 9.3.18R to ■ BIPRU 9.3.20R.
[Note: BCD, Article 122a, paragraph 5]
- 9.3.22 **G** When calculating the additional *risk weight* it will impose, the *appropriate regulator* will take into account the exemption of certain *securitisations* from the scope of ■ BIPRU 9.15.3R under ■ BIPRU 9.15.9R and ■ BIPRU 9.15.10R and, if those exemptions are relevant, reduce the *risk weight* it would otherwise impose.
[Note: BCD, Article 122a, paragraph 5]

9.4 Traditional securitisation

Minimum requirements for recognition of significant credit risk transfer

- 9.4.1** **R** The *originator* 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:
- (1) significant credit risk associated with the *securitised exposures* is considered to have been transferred to third parties; or
 - (2) the *originator* applies a 1250% *risk weight* to all *securitisation positions* it holds in the *securitisation* or deducts these *securitisation positions* from *capital resources* according to ■ GENPRU 2.2.237 R;
- and the transfer complies with the conditions in ■ BIPRU 9.4.2R ■ BIPRU 9.4.14R.
[Note: BCD Annex IX Part 2 point 1, paragraph 1]
- 9.4.2** **R** The *securitisation* documentation must reflect the economic substance of the transaction.
[Note: BCD Annex IX Part 2 point 1 (part)]
- 9.4.3** **R** The *securitised exposures* must be put beyond the reach of the *originator* and its creditors, including in bankruptcy and receivership. This must be supported by the opinion of qualified legal counsel.
[Note: BCD Annex IX Part 2 point 1 (part)]
- 9.4.4** **G** Legal counsel's opinions should be reviewed as necessary. For example, an opinion should be reviewed if a relevant statutory provision is amended or where a new decision or judgment of a court might have a bearing on the conclusions reached.
- 9.4.5** **R** The securities issued must not represent payment obligations of the *originator*.
[Note: BCD Annex IX Part 2 point 1 (part)]
- 9.4.6** **R** The transferee must be a *securitisation special purpose entity*.
[Note: BCD Annex IX Part 2 point 1 (part)]

- 9.4.7 **R** The *originator* must not maintain effective or indirect control over the transferred *exposures*.
[Note: BCD Annex IX Part 2 point 1 (part)]
- 9.4.8 **R** Where there is a *clean-up call option*, the following conditions must be satisfied:
- (1) the *clean-up call option* is exercisable at the discretion of the *originator*;
 - (2) the *clean-up call option* may only be exercised when 10% or less of the original value of the *exposures securitised* remains unamortised; and
 - (3) 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*.
- [Note: BCD Annex IX Part 2 point 1 (part)]
- 9.4.9 **R** The *securitisation* documentation must not contain clauses that:
- (1) other than in the case of *early amortisation provisions*, require positions in the *securitisation* to be improved by the *originator* 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
 - (2) increase the yield payable to holders of positions in the *securitisation* in response to a deterioration in the credit quality of the underlying pool.
- [Note: BCD Annex IX Part 2 point 1 (part)]
- 9.4.10 **R** For the purposes of **■ BIPRU 9.4.7 R**, an *originator* will 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's* retention of servicing rights or obligations in respect of the *exposures* does not of itself constitute indirect control of the *exposures*.
[Note: BCD Annex IX Part 2 point 1 (part)]
- 9.4.11 **R** Significant credit risk will be considered to be transferred for an *originator* in the following cases:
- (1) the *risk weighted exposure amounts* of the *mezzanine securitisation positions* held by the *originator* in the *securitisation* do not exceed 50% of the *risk weighted exposure amounts* of all *mezzanine securitisation positions* existing in this *securitisation*;
 - (2) 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 *capital resources* or a 1250% *risk weight* exceeds a

reasoned estimate of the expected loss on the *securitised exposures* by a substantial margin, the *originator* does not hold more than 20% of the exposure values of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% risk weight.

[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1a]

- 9.4.12** **R** An *originator* must notify the *appropriate regulator* that it is relying on the deemed transfer of significant credit risk under ■ BIPRU 9.4.11R within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:
- (1) the *risk weighted exposure amount* of the *securitised exposures* and retained *securitisation positions*;
 - (2) the *exposure value* of the *securitised exposures* and the retained *securitisation positions*;
 - (3) details of the *securitisation positions*, including rating, *exposure value* broken down by *securitisation positions* sold and retained;
 - (4) a statement that sets out why the *firm* is satisfied that the reduction in *risk weighted exposure amounts* is justified by a commensurate transfer of credit risk to third parties;
 - (5) any relevant supporting documents, for example, a summary of the transaction.
- 9.4.13** **G** In the event that the *appropriate regulator* decides that the possible reduction in *risk weighted exposure amounts* which the *originator* would achieve by the *securitisation* referred to in ■ BIPRU 9.4.11R is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 55J (Variation etc on the Authority's own initiative) of the *Act* to require the *firm* to increase its *risk weight exposure amount* to an amount commensurate with the *appropriate regulator's* assessment of the transfer of credit risk to third parties.
- 9.4.14** **G** An *originator* may be granted a *waiver* of the requirements in ■ BIPRU 9.4.11R and ■ BIPRU 9.4.12R.
- 9.4.15** **D** An *originator's* application for a *waiver* of the requirements in ■ BIPRU 9.4.11R and ■ BIPRU 9.4.12R must demonstrate that the following conditions are satisfied.
- (1) it has policies and methodologies in place which ensure 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; and

- (2) that such a transfer of credit risk to third parties is also recognised for the purposes of all the *firm's* internal risk management and internal capital allocation.

[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1c]

- 9.4.16** **G** ■ BIPRU 1.3.10 G sets out the *appropriate regulator's* approach to the granting of *waivers*. The conditions in ■ BIPRU 9.4.15D are minimum requirements. Satisfaction of those does not automatically mean the *appropriate regulator* will grant the relevant *waiver*. The *appropriate regulator* will in addition also apply the tests in section 138A (Modification or waiver of rules) of the Act.
- 9.4.17** **G** When considering an application for a *waiver* of the requirements in ■ BIPRU 9.4.11R and ■ BIPRU 9.4.12R, the *appropriate regulator* may undertake a visit to the *firm* in order to examine the *firm's* risk management and governance arrangements. Before such a visit, the *appropriate regulator* may request information from the *firm* additional or supplementary to that provided in the *waiver* application.
- 9.4.18** **G** An *originator* should clearly state the scope of the *waiver* of the requirements in ■ BIPRU 9.4.11R and ■ BIPRU 9.4.12R it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the *waiver*. Relevant asset classes may therefore be defined according to a *firm's* internal usage of terms.

9.5 Synthetic securitisation

Minimum requirements for recognition of significant credit risk transfer

9.5.1

R

(1) An *originator* of a *synthetic securitisation* may calculate *risk weighted exposure amounts*, and, as relevant, *expected loss amounts*, for the *securitised exposures* in accordance with ■ BIPRU 9.5.3 R and ■ BIPRU 9.5.4 R, if either of the following conditions is fulfilled:

- (a) significant credit risk is considered to have been transferred to third parties, either through funded or unfunded credit protection; or
- (b) the *originator* applies a 1250% *risk weight* to all *securitisation positions* he holds in this *securitisation* or deducts these *securitisation positions* from *capital resources* according to ■ GENPRU 2.2.237 R;

and the transfer complies with the conditions in (2)-(8).

[Note: BCD, Annex IX, Part 2, Point 2, paragraph 2]

- (2) The *securitisation* documentation must reflect the economic substance of the transaction.
- (3) The credit protection by which the credit risk is transferred must comply with the eligibility and other requirements under ■ BIPRU 5 (Credit risk mitigation) and, so far as applicable, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach) for the recognition of such credit protection. For the purposes of this *rule*, *securitisation special purpose entities* must not be recognised as eligible unfunded protection providers.
- (4) The instruments used to transfer credit risk must not contain terms or conditions that:
 - (a) impose significant materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;
 - (b) allow for the termination of the protection due to deterioration of the credit quality of the underlying *exposures*;
 - (c) other than in the case of *early amortisation provisions*, require positions in the *securitisation* to be improved by the *originator*; or
 - (d) increase the *originator's* 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.

- (5) An opinion must be obtained from qualified legal counsel confirming the enforceability of the credit protection in all relevant jurisdictions.

[Note: BCD Annex IX Part 2 point 2]

- (6) Significant credit risk will 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* 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 *capital resources* or a 1250% *risk weight* exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the *originator* does not hold more than 20% of the exposure values of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% risk weight.

[Note: BCD, Annex IX, Part 2, Point 2, paragraph 2a]

- (7) An *originator* must notify the *appropriate regulator* that it is relying on the deemed transfer of significant credit risk under ■ BIPRU 9.5.1R (6) within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:

- (a) the *risk weighted exposure amount* of the *securitised exposures* and retained *securitisation positions*;
- (b) the *exposure* value of the *securitised exposures* and the retained *securitisation positions*;
- (c) details of the *securitisation positions*, including rating, *exposure* value broken down by *securitisation positions* sold and retained;
- (d) a statement that sets out why the *firm* is satisfied that the reduction in *risk weighted exposure amounts* is justified by a commensurate transfer of credit risk to third parties;
- (e) any relevant supporting documents, for example, a summary of the transaction.

9.5.1A G An *originator* may be granted a *waiver* of the requirements in ■ BIPRU 9.5.1R (6) and ■ (7).

9.5.1B D An *originator's* application for a *waiver* of the requirements in ■ BIPRU 9.5.1R (6) and ■ (7) must demonstrate that the following conditions are satisfied:

- (1) it has policies and methodologies in place which ensure 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; and

- (2) that such transfer of credit risk to third parties is also recognised for the purposes of all the *originator's* internal risk management and its internal capital allocation.

[Note: BCD, Annex IX, Part 2, Point 2, paragraph 2c]

- 9.5.1C** **G** ■ BIPRU 1.3.10 G sets out the *appropriate regulator* approach to the granting of *waivers*. The conditions in ■ BIPRU 9.5.1BD are minimum requirements. Satisfaction of those does not automatically mean the *appropriate regulator* will grant the relevant *waiver*. The *appropriate regulator* will in addition also apply the tests in section 138A (Modification or waiver of rules) of the Act.
- 9.5.1D** **G** When considering an application for a *waiver* of the requirements in ■ BIPRU 9.5.1R (6) and ■ (7), the *appropriate regulator* may undertake a visit to the *firm* in order to examine the *firm's* risk management and governance arrangements. Before such a visit, the *appropriate regulator* may request information from the *firm* additional or supplementary to that provided in the *waiver* application.
- 9.5.1E** **G** An *originator* should clearly state the scope of the *waiver* of the requirements in ■ BIPRU 9.5.1R (6) and ■ (7) it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the *waiver*. Relevant asset classes may therefore be defined according to a *firm's* internal usage of terms.
- 9.5.1F** **G** In the event that the *appropriate regulator* decides that the possible reduction in *risk weighted exposure amounts* which the *originator credit institution* would achieve by the *securitisation* referred to in ■ BIPRU 9.5.1R (6) is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 55J (Variation etc on the Authority's own initiative) of the Act to require the *firm* to increase its *risk weight exposure amount* to an amount commensurate with the *appropriate regulator's* assessment of the transfer of credit risk to third parties.

Originators' calculation of risk-weighted exposure amounts for exposures securitised in a synthetic securitisation

- 9.5.2** **R** ■ BIPRU 9.5.3 R-■ BIPRU 9.5.8 R apply to the calculation by an *originator* of *risk weighted exposure amounts* for *exposures securitised in a synthetic securitisation*.
- 9.5.3** **R** (1) In calculating *risk weighted exposure amounts* for the *securitised exposures*, where the conditions in ■ BIPRU 9.5.1 R are met, the *originator* of a *synthetic securitisation* must, subject to the treatment of maturity mismatches set out in ■ BIPRU 9.5.6 R-■ BIPRU 9.5.8 R, use the relevant calculation methodologies set out in ■ BIPRU 9.9-■ BIPRU 9.14 and not those set out in ■ BIPRU 3 (Standardised credit risk) or ■ BIPRU 4 (IRB approach).

(2) For firms calculating *risk weighted exposure amounts* and *expected loss* amounts under the *IRB approach*, the *expected loss* amount in respect of such *exposures* must be zero.

(3) For clarity, this paragraph refers to the entire pool of *exposures* included in the *securitisation*.

[Note: BCD Annex IX Part 2 point 3 and point 4 (part)]

- 9.5.4 **R** Subject to the treatment of maturity mismatches set out in ■ BIPRU 9.5.6 R- ■ BIPRU 9.5.8 R, the *originator* must calculate *risk weighted exposure amounts* in respect of all *tranches* in the *securitisation* in accordance with the provisions of ■ BIPRU 9.9- ■ BIPRU 9.14. For example, where a *tranche* is transferred by means of unfunded credit protection to a third party, the *risk weight* of that third party must be applied to the *tranche* in the calculation of the *originators risk weighted exposure amount*.
- [Note: BCD Annex IX Part 2 point 4 (part)]

Treatment of maturity mismatches in synthetic securitisations

- 9.5.5 **R** ■ BIPRU 9.5.6 R- ■ BIPRU 9.5.8 R apply to the treatment of maturity mismatches in a *synthetic securitisation*.

- 9.5.6 **R** For the purposes of calculating *risk weighted exposure amounts* in accordance with ■ BIPRU 9.5.3 R, any maturity mismatch between the credit protection by which the *tranching* is achieved and the *securitised exposures* must be taken into consideration in accordance with ■ BIPRU 9.5.7 R- ■ BIPRU 9.5.8 R.

[Note: BCD Annex IX Part 2 point 5]

- 9.5.7 **R** The maturity of the *securitised exposures* must 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 must be determined in accordance with ■ BIPRU 5 (Credit risk mitigation) and, so far as relevant, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach).

[Note: BCD Annex IX Part 2 point 6]

- 9.5.8 **R** (1) An *originator* must ignore any maturity mismatch in calculating *risk weighted exposure amounts* for *tranches* appearing pursuant to ■ BIPRU 9.9- ■ BIPRU 9.14 with a *risk weight* of 1250%. For all other *tranches* the maturity mismatch treatment prescribed in ■ BIPRU 5.8 (Maturity mismatches) must be applied in accordance with the following formula:

$$RW^* \text{ is } [RW(SP) \times (t-t^*)/(T-t^*)] + [RW(Ass) \times (T-t)/(T-t^*)]$$

(2) The following apply for the purposes of the formula in (1):

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

- (c) $RW(SP)$ is *risk weighted exposure amounts* calculated under
 - BIPRU 9.6.3 G as if there was no maturity mismatch;
- (d) T is maturity of the underlying *exposures* expressed in years;
- (e) t is maturity of credit protection expressed in years; and
- (f) t^* is 0.25.

[Note: BCD Annex IX Part 2 point 7]

9.6 Implicit support

- 9.6.1** **R** An *originator* which, in respect of a securitisation in the *non-trading book*, has made use of **■ BIPRU 9.3.1 R** in the calculation of *risk weighted exposure amounts*, or a *sponsor*, must not, with a view to reducing potential or actual losses to investors, provide support to the *securitisation* beyond its contractual obligations.
- [Note: BCD Article 101(1)]
- 9.6.1A** **R** An *originator* which has sold instruments in its *trading book* to an *SSPE* and no longer holds *market risk capital requirements* for these instruments, or a *sponsor*, must not, with a view to reducing potential or actual losses to investors, provide support to the *securitisation* beyond its contractual obligations.
- [Note: BCD Article 101(1)]
- 9.6.2** **R** If an *originator* or *sponsor* fails to comply with **■ BIPRU 9.6.1 R** or **■ BIPRU 9.6.1A R** in respect of a *securitisation*, it must:
- (1) hold capital against all of the *securitised exposures* associated with the *securitisation* transaction as if they had not been *securitised*; and
 - (2) disclose publicly:
 - (a) that it has provided non-contractual support; and
 - (b) the regulatory capital impact of doing so.
- [Note: BCD Article 101(2)]
- 9.6.3** **G**
- (1) *Securitisation* documentation should make clear, where applicable, that any repurchase of *securitised exposures* or *securitisation positions* by the *originator* or *sponsor* beyond its contractual obligations is not mandatory and may only be made at fair market value. In general, any such repurchase should be subject to a *firm's* credit review and approval process, which should be adequate to ensure that the repurchase complies with **■ BIPRU 9.6.1 R**.
 - (2) If an *originator* or *sponsor* repurchases *securitised exposures* or *securitisation positions*, it should be able to satisfy the *appropriate regulator* that it has adequately considered the following:
 - (a) the price of the repurchase;

- (b) the *firm's* capital and liquidity position before and after repurchase;
 - (c) the performance of the *securitised exposures*; and
 - (d) the performance of the issued securities;
- and has concluded that, taking into account those factors and any other relevant factors, the repurchase is not structured to provide support.

(3) A *firm* should keep adequate records of the matters in (1) and (2).

9.6.4 G If a *firm* is found to have provided implicit support to a *securitisation*, that fact increases the expectation that the *firm* will provide future support to its *securitisations* thus failing to achieve a significant transfer of risk. The *appropriate regulator* will consider taking appropriate measures to reflect this increased expectation after an instance of implicit support is found.

9.6.5 G A *firm* may need to consider three main situations to determine whether there is a breach of the prohibition against implicit support in ■ BIPRU 9.6.1 R:

- (1) support given under a contractual obligation;
- (2) support given under the contractual documentation for the *securitisation* which the *firm* is entitled, but not obliged, to give; and
- (3) support which is not provided for under the contractual documentation for the *securitisation*.

9.6.6 G

- (1) The support described in ■ BIPRU 9.6.5 G (1) is permitted by ■ BIPRU 9.6.1 R.
- (2) The support described in ■ BIPRU 9.6.5 G (3) is not permitted by ■ BIPRU 9.6.1 R.
- (3) The support described in ■ BIPRU 9.6.5 G (2) may be permitted by ■ BIPRU 9.6.1 R under the following conditions:
 - (a) the fact that the *firm* may give it is expressly set out in the contractual and marketing documents for the *securitisation*;
 - (b) the nature of the support that the *firm* may give is precisely described in the documentation;
 - (c) the maximum degree of support that can be given can be ascertained at the time of the *securitisation* both by the *firm* and by a *person* whose only information comes from the marketing documents for the *securitisation*;
 - (d) the assessment of whether there has been significant risk transfer and the amount of that transfer is made on the basis that the *firm* will provide support to the maximum degree possible; and
 - (e) the *firm's* capital resources and capital resources requirement are adjusted at the time of the *securitisation* on the basis that the *firm* has provided support to the maximum degree possible, whether by an immediate deduction from capital or appropriate risk weighting.

- 9.6.7 **G** A waiver of the right to future margin income may not breach the prohibition against implicit support:
- (1) the degree of support that can be given can be defined precisely by reference to the *securitisation* contractual documentation , albeit the amount of support may not be ascertainable in absolute monetary terms; and
 - (2) no adjustment to the *firm's capital resources* or *capital resources requirement* is required, as a *firm* should not in any case reflect future margin income in its income or *capital resources*.
- 9.6.8 **G** For the purposes of ■ BIPRU 9.6.2 R (2), *firms* will be expected to include disclosure of implicit support in accordance with the general and technical requirements on public disclosure, as outlined in ■ BIPRU 11 (Disclosure).

9.7 Recognition of credit assessments of ECAIs

9.7.1 **R** An ECAI's credit assessment may be used to determine the *risk weight* of a *securitisation position* in accordance with ■ BIPRU 9.9 only if the ECAI is an *eligible ECAI*.

[Note: BCD Article 97(1)]

9.7.2 **R**

- (1) A *firm* must not use a credit assessment of an *eligible ECAI* to determine the *risk weight* of a *securitisation position* in accordance with ■ BIPRU 9.9 unless it complies with the principles of credibility and transparency as elaborated in (2) to (6).
- (2) There must be no mismatch between the types of payments reflected in the credit assessment and the types of payment to which the *firm* is entitled under the contract giving rise to the *securitisation position* in question.
- (3) The credit assessment must be available publicly to the market. Credit assessments may only be treated as publicly available if:
 - (a) they have been published in a publicly accessible forum, and
 - (b) they are included in the ECAI's transition matrix.
- (4) Credit assessments that are made available only to a limited number of entities may not be treated as publicly available.
- (5) The credit assessment must not be based, or partly based, on unfunded support provided by the *firm* itself.
- (6) In the case of a credit assessment referred to in (5), the *firm* must consider the relevant position as if it were not rated and must apply the relevant treatment of unrated positions as set out in ■ BIPRU 9.11 and ■ BIPRU 9.12.

[Note: BCD Article 97(5) and Annex IX Part 3 point 1]

9.7.2A **G** The requirements in ■ BIPRU 9.7.2R (5) and ■ (6) apply to situations where a *firm* holds *securitisation positions* which receive a lower *risk weight* by virtue of unfunded credit protection provided by the *firm* itself acting in a different capacity in the *securitisation* transaction. The assessment of whether a *firm* is providing unfunded support to its *securitisation positions* should take into account the economic substance of that support in the context of the overall

transaction and any circumstances in which the *firm* could become exposed to a higher credit risk in the absence of that support.

9.7.3

G

The *guidance* in ■ BIPRU 3.3 (Recognition of ratings agencies) applies for the purposes of ■ BIPRU 9 as it does to *exposure risk weighting* in ■ BIPRU 3, save that the reference in ■ BIPRU 3.3 to the regulation 22 of the *Capital Requirements Regulations 2006* should be read as a reference to regulation 23 of the *Capital Requirements Regulations 2006* for the purposes of ■ BIPRU 9.

9.7.4

G

Where ■ BIPRU 9.7.2R (5) applies to *securitisation positions* in an *ABCP programme*, the *firm* may be granted a *waiver* which allows it to use the *risk weight* assigned to a *liquidity facility* in order to calculate the *risk weighted exposure amount* for the positions in the *ABCP programme*, provided that the *liquidity facility* ranks *pari passu* with the positions in the *ABCP programme* so that they form overlapping positions and 100% of the commercial paper issued by the *ABCP programme* is covered by *liquidity facilities*. For the purposes of this provision, overlapping positions means that the positions represent, wholly or partially, an *exposure* to the same risk such that, to the extent of the overlap, there is a single *exposure*.

[Note: BCD, Annex IX, Part 4, Point 5]



9.8 Use of ECAI credit assessments for the determination of applicable risk weights

- 9.8.1** **R** The use of *ECAs*' credit assessments for the calculation of a *firm's risk weighted exposure amounts* under ■ BIPRU 9 must be consistent and in accordance with ■ BIPRU 9.8.2 R ■ BIPRU 9.8.7 R. Credit assessments must not be used selectively.
[Note: BCD Article 99]
- 9.8.2** **R** A *firm* may nominate one or more *eligible ECAs* the credit assessments of which must be used in the calculation of its *risk weighted exposure amounts* under ■ BIPRU 9 (a *nominated ECA*).
[Note: BCD Annex IX Part 3 point 2]
- 9.8.3** **R** Subject to ■ BIPRU 9.8.5 R ■ BIPRU 9.8.7 R, a *firm* must use credit assessments from *nominated ECAs* consistently in respect of its *securitisation positions*.
[Note: BCD Annex IX Part 3 point 3]
- 9.8.4** **R** Subject to ■ BIPRU 9.8.5 R and ■ BIPRU 9.8.6 R, a *firm* must 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*.
[Note: BCD Annex IX Part 3 point 4]
- 9.8.5** **R** Where a position has two credit assessments by *nominated ECAs*, the *firm* must use the less favourable credit assessment.
[Note: BCD Annex IX Part 3 point 5]
- 9.8.6** **R** Where a position has more than two credit assessments by *nominated ECAs*, the two most favourable credit assessments must be used. If the two most favourable assessments are different, the least favourable of the two must be used.
[Note: BCD Annex IX Part 3 point 6]
- 9.8.7** **R** (1) Where credit protection eligible under ■ BIPRU 5 (Credit risk mitigation) and, if applicable, ■ BIPRU 4.10 (Credit risk mitigation)

under the IRB approach) 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.

- (2) If the protection is not eligible under ■ BIPRU 5 (Credit risk mitigation) and, if applicable, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach), the credit assessment must not be recognised.
- (3) In the situation where the credit protection is not provided to the *SSPE* but rather is provided directly to a *securitisation position*, the credit assessment must not be recognised.

[Note: BCD Annex IX Part 3 point 7]

9.9 Calculation of risk-weighted exposure amounts for securitisation positions

- 9.9.1** **R** To calculate the *risk weighted exposure amount* of a *securitisation position*, the relevant *risk weight* must be assigned to the *exposure* value of the position in accordance with ■ BIPRU 9.9 - ■ BIPRU 9.14 based on the credit quality of the position.
- [Note: BCD Article 96(1) (part) and Annex IX, Part 4 point 1]
- 9.9.2** **R** For the purpose of ■ BIPRU 9.9.1 R, the credit quality of a position may be determined by reference to an *ECAI* credit assessment or otherwise, as set out in ■ BIPRU 9.9 ■ BIPRU 9.14.
- [Note: BCD Article 96(1) (part)]
- 9.9.3** **R**
- (1) Where there is an *exposure* to different *tranches* in a *securitisation*, the *exposure* to each *tranche* must be considered a separate *securitisation position*.
 - (2) The providers of credit protection to *securitisation positions* must be treated as holding positions in the *securitisation*.
 - (3) *securitisation positions* include *exposures* to a *securitisation* arising from interest rate or currency derivative contracts.
- [Note: BCD Article 96(2)]
- 9.9.4** **R** Subject to ■ BIPRU 9.9.5 R,
- (1) where a *firm* calculates *risk weighted exposure amounts* under the *standardised approach* to *securitisations* outlined in ■ BIPRU 9.11, the *exposure* value of an on-balance sheet *securitisation position* must be its balance sheet value;
 - (2) where a *firm* calculates *risk weighted exposure amounts* under the *IRB approach* to *securitisations* outlined in ■ BIPRU 9.12, the *exposure* value of an on-balance sheet *securitisation position* must be measured gross of value adjustments;
 - (3) the *exposure* value of an off-balance sheet *securitisation position* must be its nominal value multiplied by a conversion figure as prescribed in this chapter; and

(4) the conversion figure referred to in (3) must be 100% unless otherwise specified.

[Note: BCD Annex IX Part 4 point 2]

9.9.5 **R** The *exposure* value of a *securitisation position* arising from a *financial derivative instrument* must be determined in accordance with ■ BIPRU 13 (Treatment of derivative instruments).

[Note: BCD Annex IX Part 4 point 3]

9.9.6 **R** 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 of ■ BIPRU 5 (Credit risk mitigation) as further specified in ■ BIPRU 9.11.13 R and ■ BIPRU 9.14.

[Note: BCD Annex IX Part 4 point 4]

9.9.7 **R** 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 ■ BIPRU 5 (Credit risk mitigation) and, if applicable, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach) read in conjunction with ■ BIPRU 9.14.

[Note: BCD Article 96(3)]

9.9.8 **R** (1) Where a *firm* has two or more overlapping positions in a *securitisation* the *firm* must, to the extent that the positions overlap, 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 *firm* may also recognise such an overlap between capital charges for *specific risk* in relation to *positions* in the *trading book* and capital charges for positions in the *non-trading book*, provided that the *firm* is able to calculate and compare the capital charges for the relevant positions.

(2) For the purposes of (1), overlapping means that the positions, wholly or partially, represent an *exposure* to the same risk such that to the extent of the overlap there is a single *exposure*.

[Note: BCD Annex IX Part 4 point 5]

9.9.9 **R** Subject to the provisions of *GENPRU* that deal with the deduction of *securitisation positions* at stage M in the relevant *capital resources table*, the *risk weighted exposure amount* must be included in the *firm's* total of *risk weighted exposure amounts* for the purposes of the calculation of its *credit risk capital requirement*.

[Note: BCD Article 96(4)]

9.9.10 **G** Where ■ BIPRU 9.7.2R (5) applies to *securitisation positions* in an *ABCP programme*, the *firm* may be granted a *waiver* in the terms described in ■ BIPRU 9.7.4 G.

[Note: BCD, Annex IX, Part 4, Point 5]

9.10 Reduction in risk-weighted exposure amounts

- 9.10.1** **R** ■ BIPRU 9.10 applies as follows:
- (1) ■ BIPRU 9.10.2 R and ■ BIPRU 9.10.3 R apply to both the *standardised approach* and the *IRB approach*; and
 - (2) ■ BIPRU 9.10.4 R ■ BIPRU 9.10.7 R apply to the *IRB approach*.
- 9.10.2** **R** In respect of a *securitisation position* in respect of which a 1250% *risk weight* is assigned, a *firm* may, as an alternative to including the position in its calculation of *risk weighted exposure amounts*, deduct from its *capital resources* 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 ■ BIPRU 9.14.
- [Note: BCD Annex IX Part 4 points 35, 74 and 75(b)]
- 9.10.3** **R** Where a *firm* applies ■ BIPRU 9.10.2 R, 12.5 times the amount deducted in accordance with that paragraph must, for the purposes of ■ BIPRU 9.11.5 R and ■ BIPRU 9.12.8 R, be subtracted from the amount specified in whichever of those *rules* applies as the maximum *risk weighted exposure amount* to be calculated by a *firm* to which one of those *rules* applies.
- [Note: BCD Annex IX Part 4 point 36 and point 76]
- 9.10.4** **R** The *risk weighted exposure amount* of a *securitisation position* to which a 1250% *risk weight* is assigned may be reduced by 12.5 times the amount of any value adjustments made by the *firm* in respect of the *securitised exposures*.
- [Note: BCD Annex IX Part 4 point 72 (part)]
- 9.10.5** **R** To the extent that value adjustments are taken account of for the purposes of ■ BIPRU 9.10.4 R they must not be taken account of for the purposes of the calculation indicated in ■ BIPRU 4.3.8 R (Treatment of expected loss amounts).
- [Note: BCD Annex IX Part 4 point 72 (part)]

9.10.6 **R** 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 *firm* in respect of the position.

[Note: BCD Annex IX Part 4 point 73]

9.10.7 **R** For the purposes of ■ BIPRU 9.10.2 R (as it applies to the *IRB approach*):

(1) the *exposure* value of the position may be derived from the *risk weighted exposure amounts* taking into account any reductions made in accordance with ■ BIPRU 9.10.4 R ■ BIPRU 9.10.6 R;

(2) where the *supervisory formula method* is used to calculate *risk weighted exposure amounts* and $L < K_{IRBR}$ 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.

[Note: BCD Annex IX Part 4 point 75(a) and (c)]



9.11 Calculation of risk weighted exposure amounts under the standardised approach to securitisations

9.11.1 **R** Subject to **■** BIPRU 9.11.5 R, the *risk weighted exposure amount* of a rated *securitisation position* or *resecuritisation position* must 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, as prescribed in **■** BIPRU 9.11.2 R .

[Note: BCD Annex IX Part 4 point 6]

9.11.2 **R** Table:

This table belongs to **■** BIPRU 9.11.1 R

<i>Credit Quality step</i>	1	2	3	4 (only for credit assessments other than short-term credit assessments)	All other credit quality steps
<i>Securitisation positions</i>	20%	50%	100%	350%	1250%
<i>Resecuritisation positions</i>	40%	100%	225%	650%	1250%

[Note: For mapping of the *credit quality step* to the credit assessments of *eligible ECAs*, refer to: <http://www.fca.org.uk/your-fca/documents/fsa-ecais-securitisation> for the *FCA* and <http://www.bankofengland.co.uk/pradocuments/publications/ss/2013/ss913.pdf> for the *PRA*]

[Note: BCD, Annex IX, Part 4, point 6, Table 1]

9.11.3 **R** [deleted]

9.11.4 **R** Subject to ■ BIPRU 9.11.6 R ■ BIPRU 9.11.12 R, the *risk weighted exposure amount* of an unrated *securitisation position* must be calculated by applying a *risk weight* of 1250%.

[Note: BCD Annex IX Part 4 point 7]

Originator and sponsor firms

9.11.5 **R** For an *originator* or *sponsor*, 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 (see ■ BIPRU 3.4.104 R and ■ BIPRU 3 Annex 3 R) amongst the *securitised exposures*.

[Note: BCD Annex IX Part 4 point 8]

Treatment of unrated securitisation positions

- 9.11.6 **R**
- (1) A *firm* having an unrated *securitisation position* may apply the treatment set out in this paragraph 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) A *firm* may apply the weighted-average *risk weight* that would be applied to the *securitised exposures* referred to in (1) under the *standardised approach* by a *firm* holding the *exposures* multiplied by a concentration ratio.
 - (3) 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.
 - (4) The resulting *risk weight* must not be higher than 1250% or lower than any *risk weight* applicable to a rated more senior *tranche*.
 - (5) Where the *firm* is unable to determine the *risk weights* that would be applied to the *securitised exposures* under the *standardised approach*, it must apply a *risk weight* of 1250% to the position.

[Note: BCD Annex IX Part 4 points 9 and 10]

- 9.11.7 **G**
- (1) This provision contains *guidance* on the requirement in ■ BIPRU 9.11.6 R (1) that the composition of the pool of *exposures securitised* must be known at all times.
 - (2) The composition should be known sufficiently at the time of purchase for the *firm* to be able accurately to calculate the *risk weighted exposure amounts* of the pool under the *standardised approach*.
 - (3) Thereafter, any change to the composition of the pool during the life of the transaction that would lead to an increase in the *risk weighted exposure amount* of the pool of *exposures* under the *standardised approach* should be either:
 - (a) prohibited by the documentation; or

(b) included in the *firm's* capital calculations.

- (4) It would be sufficient for the purposes of (2) for the composition of the pool to be reported to the *firm* at least daily, via information service providers, secure web-sites or other appropriate sources.

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

9.11.8 **R** Subject to the availability of a more favourable treatment by virtue of the provisions concerning *liquidity facilities* in ■ BIPRU 9.11.10 R ■ BIPRU 9.11.12 R, a *firm* may apply to *securitisation positions* meeting the conditions set out in ■ BIPRU 9.11.9 R a *risk weight* that is the greater of:

- (1) 100%, or
- (2) the highest of the risk weights that would be applied to any of the *securitised exposures* under the *standardised approach* by a *firm* holding the *exposures*.

[Note: BCD Annex IX Part 4 point 11]

9.11.9 **R** For the treatment in ■ BIPRU 9.11.8 R to be available,:

- (1) the *securitisation position* must be in an *ABCP programme*;
- (2) the *securitisation position* must be 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*;
- (3) the *securitisation position* must be of a quality the equivalent of investment grade or better; and
- (4) the *firm* in question must not hold a position in the first loss *tranche*.

[Note: BCD Annex IX Part 4 point 12]

Treatment of unrated liquidity facilities

9.11.10 **R** When the conditions in this paragraph have been met, and in order to determine its *exposure* value, a conversion figure of 50% may be applied to the nominal amount of a *liquidity facility*. The *risk weight* to be applied is the highest *risk weight* that would be applied to any of the *securitised exposures* under the *standardised approach* by a *firm* holding the *exposures*. Those conditions are as follows:

- (1) the *liquidity facility* documentation must clearly identify and limit the circumstances under which the facility may be drawn;
- (2) it must not be possible for the facility 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;
- (3) the facility must not be used to provide permanent or regular funding for the *securitisation*;

- (4) repayment of draws on the facility must 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;
- (5) it must not be possible for the facility to be drawn after all applicable *credit enhancements* from which the *liquidity facility* would benefit are exhausted; and
- (6) 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 for the purposes of the *IRB approach*, 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.

[Note: BCD Annex IX Part 4 point 13]

Liquidity facilities that may be drawn only in the event of a general market disruption

9.11.11 **R** [deleted]

Cash advance facilities

9.11.12 **R** 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 **■ BIPRU 9.11.10 R** 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*.

[Note: BCD Annex IX Part 4 point 15]

Standardised approach: recognition of credit risk mitigation on securitisation positions

9.11.13 **R** Where a *firm* calculates the *risk weighted exposure amount* of a *securitisation position* under the *standardised approach*, where credit protection is obtained on a *securitisation position*, the calculation of *risk weighted exposure amounts* may be modified in accordance with **■ BIPRU 5** (Credit risk mitigation).

[Note: BCD Annex IX Part 4 point 34]

9.12 Calculation of risk-weighted exposure amounts under the IRB approach

- 9.12.1** **R** ■ BIPRU 9.12 applies to the calculation of *risk weighted exposure amounts* of *securitisation positions* under the *IRB approach*.
[Note: BCD Annex IX Part 4 point 37 (part)]
- 9.12.2** **R** **Hierarchy of methods**
For a *rated position* or a position in respect of which an inferred rating may be used, the *ratings based method* must be used to calculate the *risk weighted exposure amount*.
[Note: BCD Annex IX Part 4 point 38]
- 9.12.3** **R** For an *unrated position* the *supervisory formula method* must be used except where a *firm* uses the *ABCP internal assessment approach*.
[Note: BCD Annex IX Part 4 point 39]
- 9.12.4** **G** In cases where both the *ABCP internal assessment approach* and the *supervisory formula method* are available, a *firm* should determine the most appropriate approach and apply that approach consistently.
- 9.12.5** **R** A *firm* other than an *originator* or a *sponsor* may not use the *supervisory formula method* unless its *IRB permission* expressly permits it to do so.
[Note: BCD Annex IX Part 4 point 40]
- 9.12.6** **R** Subject to any *IRB permission* of the type described in ■ BIPRU 9.12.28 G, in the case of an *originator* or *sponsor* unable to calculate K_{IRB} and which has not obtained approval to use the *ABCP internal assessment approach*, and in the case of other *firms* where they have not obtained approval to use the *supervisory formula method* or, for positions in *ABCP programmes*, the *ABCP internal assessment approach*, a *risk weight* of 1250% must be assigned to *securitisation positions* which are unrated and in respect of which an inferred rating may not be used.
[Note: BCD Annex IX Part 4 point 41]

Use of inferred ratings

9.12.7 **R** When the following minimum operational requirements are satisfied a *firm* must 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:

- (1) the reference positions must be subordinate in all respects to the *unrated securitisation position*;
- (2) the maturity of the reference positions must be equal to or longer than that of the *unrated position* in question; and
- (3) on an ongoing basis, any inferred rating must be updated to reflect any changes in the credit assessment of the reference positions.

[Note: BCD Annex IX Part 4 point 42]

Maximum risk-weighted exposure amounts

9.12.8 **R** For an *originator*, a *sponsor*, or for other *firms* 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 an amount in respect of its *credit risk capital requirement* equal to the sum of 8% of the *risk weighted exposure amount* which would be produced if the *securitised assets* had not been *securitised* and were on the balance sheet of the *firm* plus the *expected loss* amounts of those *exposures*.

[Note: BCD Annex IX Part 4 point 45]

Ratings based method

9.12.9 **R** ■ BIPRU 9.12.10 R to ■ BIPRU 9.12.19 R apply to the calculation of *risk weighted exposure amount* of *securitisation positions* under the *ratings based method*.

9.12.10 **R** Under the *ratings based method*, the *risk weighted exposure amount* of a *rated securitisation position* or *resecuritisation position* must be calculated by applying to the *exposure value* the *risk weight* associated with the *credit quality step* with which the credit assessment is associated as prescribed in ■ BIPRU 9.12.11 R multiplied by 1.06.

[Note: BCD Annex IX Part 4 point 46]

9.12.11 **R** Table:

This table belongs to ■ BIPRU 9.12.10 R

Credit Quality Step	Securitisation positions			Resecuritisation positions		
	Short-term credit assessments	A	B	C	D	E
1	1	7%	12%	20%	20%	30%

Credit Quality Step	Securitisation positions			Resecuritisation positions			
	Credit assessments other than short term	Short-term credit assessments	A	B	C	D	E
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, unrated	1250%			

[Note: For mapping of the *credit quality step* to the credit assessments of eligible *ECAIs*, refer to: <http://www.fca.org.uk/your-fca/documents/fsa-ecais-securitisation> for the *FCA* and <http://www.bankofengland.co.uk/publications/Documents/other/pr/policy/2013/ecaissecuritisation.pdf> for the *PRA*.]

[Note: *BCD*, Annex IX, Part 4, point 46]

9.12.12 R [deleted]

9.12.13 R For the purposes of ■ BIPRU 9.12.10 R:

- (1) the weightings in column C of ■ BIPRU 9.12.11 R must be applied where the *securitisation position* is not a *resecuritisation position* and where the effective number of *exposures* securitised is less than six;
- (2) for the remainder of the *securitisation positions* that are not *resecuritisation positions*, the weightings in column B must be applied unless the position is in the most senior *tranche* of a *securitisation*, in which case the weightings in column A must be applied; and
- (3) for *resecuritisation positions*, the weightings in column E must be applied unless the *resecuritisation position* is in the most senior *tranche* of the *resecuritisation* and none of the underlying *exposures* were themselves *resecuritisation exposures*, in which case column D must be applied.

[Note: *BCD* Annex IX Part 4 point 47(part)]

9.12.14 R When determining under ■ BIPRU 9.12.13 R whether a *tranche* is the most senior for these purposes, a *firm* need not take into consideration amounts

due under interest rate or currency derivative contracts, fees due, or other similar payments.

[Note: BCD Annex IX Part 4 point 47 (part)]

9.12.15 **G** A senior *liquidity facility* need not be taken into account for the purposes of determining the most senior tranche under ■ BIPRU 9.12.13 R.

9.12.16 **R** [deleted]

9.12.17 **R** In calculating the effective number of *exposures securitised*, multiple *exposures* to one obligor must 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*, C1, is available, the *firm* may compute N as $1/C1$.

[Note: BCD Annex IX Part 4 point 49]

9.12.18 **R** [deleted]

9.12.19 **R** [deleted]

The ABCP internal assessment approach

- 9.12.20 **R**
- (1) If:
 - (a) a *firm's IRB permission* allows it to use this treatment; and
 - (b) the conditions in (2)(16) are satisfied,
 a *firm* may attribute to an *unrated position* in an *asset backed commercial paper programme* a derived rating as laid down in (3).
 - (2) Positions in the commercial paper issued from the programme must be *rated positions*.
 - (3) Under the *ABCP internal assessment approach*, the *unrated position* must be assigned by the *firm* to one of the rating grades described in (5). The position must be attributed a derived rating that is the same as the credit assessments corresponding to that rating grade as laid down in (5). Where this derived rating is, at the inception of the *securitisation*, at the level of investment grade or better, it must be treated in the same way as an eligible credit assessment by an *eligible ECAI* for the purposes of calculating *risk weighted exposure amounts*.
 - (4) The internal assessment methodology must be used in the *firms* internal risk management processes, including its decision making, management information and capital allocation processes.
 - (5) The *firms* internal assessment methodology must include rating grades. There must be a correspondence between such rating grades

and the credit assessments of *eligible ECAs*. This correspondence must be explicitly documented.

- (6) The *firm* must be able to satisfy the *appropriate regulator* that its internal assessment of the credit quality of the position reflects the publicly available assessment methodology of one or more *eligible ECAs*, for the rating of securities backed by the *exposures* of the type *securitised*.
- (7) If a *firm's IRB permission* permits this, a *firm* need not comply with the requirement for the assessment methodology of the *ECAI* to be publicly available where it can demonstrate that due to the specific features of the *securitisation* for example its unique structure - there is as yet no publicly available *ECAI* assessment methodology.
- (8) The *ECAs*, the methodology of which must be reflected as required by (6), must include those *ECAs* 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 *ECAs* in question.
- (9) In developing its internal assessment methodology the *firm* must take into consideration relevant published ratings methodologies of the *eligible ECAs* that rate the commercial paper of the *ABCP programme*. This consideration must be documented by the *firm* and updated regularly, as outlined in (15).
- (10) The *ABCP programme* must have collections policies and processes that take into account the operational capability and credit quality of the servicer. The programme must mitigate seller/servicer risk through various methods, such as triggers based on current credit quality that would preclude commingling of funds.
- (11) The *ABCP programme* must incorporate structural features for example wind down triggers - into the purchase of *exposures* in order to mitigate potential credit deterioration of the underlying portfolio.
- (12) The *ABCP programme* must incorporate underwriting standards in the form of credit and investment guidelines. In deciding on an asset purchase, the programme administrator must 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 sellers risk profile must be performed and must 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 sellers underwriting standards, servicing capabilities, and collection processes must be performed.
- (13) The *ABCP programme's* underwriting standards must establish minimum asset eligibility criteria that, in particular,
 - (a) exclude the purchase of assets that are significantly past due or defaulted;

- (b) limit excess concentration to individual obligor or geographic area; and
- (c) limit the tenor of the assets to be purchased.

- (14) 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 risk and *dilution risk*. If the seller-provided *credit enhancement* is sized based on only credit-related losses, then a separate reserve must be established for *dilution risk*, if *dilution risk* is material for the particular *exposure pool*. In addition, in sizing the required enhancement level, the programme must review several years of historical information, including losses, delinquencies, dilutions, and the turnover rate of the receivables.
- (15) Internal or external auditors, an *ECAI*, or the *firm's* internal credit review or risk management function must perform regular reviews of the internal assessment process and the quality of the internal assessments of the credit quality of the *firms exposures* to an *ABCP programme*. If the *firms* internal audit, credit review, or risk management functions perform the review, then these functions must be independent of the *ABCP programme* business line, as well as the customer relationship.
- (16) The *firm* must track the performance of its internal ratings over time to evaluate the performance of its internal assessment methodology and must make adjustments, as necessary, to that methodology when the performance of the *exposures* routinely diverges from that indicated by the internal ratings.

[Note: BCD Annex IX Part 4 points 43 and 44]

Supervisory formula method

9.12.21 **R** Subject to any *permission* of the type described in ■ BIPRU 9.12.28 G, under the *supervisory formula method*, the *risk weight* for a *securitisation position* must be the *risk weight* to be applied in accordance with ■ BIPRU 9.12.22 R. However, the *risk weight* must be no less than 20% for *resecuritisation positions* and no less than 7% for all other *securitisation positions*.

[Note: BCD Annex IX Part 4 point 52]

- 9.12.22 **R**
- (1) Subject to any *permission* of the type described in ■ BIPRU 9.12.28 G, the *risk weight* to be applied to the *exposure* amount must be:

$$12.5 (S[L+T] - S[L]) / T$$
 - (2) The remaining provisions of this paragraph define the terms used in the formulae in (1) and (3).

$$(3) \quad S(x) = \begin{cases} x & \text{when } x \leq K_{IRBR} \\ K_{IRBR} + K[x] - K[K_{IRBR}] + (d \cdot K_{IRBR}^b) (1 - e^{\omega(K_{IRBR} - x)/K_{IRBR}}) & \text{when } K_{IRBR} < x \end{cases}$$

$$(4) \quad h = (1 - K_{IRBR} / ELGD)^N$$

$$(5) \quad c = K_{IRBR} / (1 - h)$$

$$(6) \quad v = \frac{(ELGD - K_{IRBR}) K_{IRBR} + 0.25 (1 - ELGD) K_{IRBR}}{N}$$

$$(7) \quad f = \left(\frac{v + K_{IRBR}^2}{1 - h} - c^2 \right) + \frac{(1 - K_{IRBR}) K_{IRBR} - v}{(1 - h) \tau}$$

$$(8) \quad g = \frac{(1 - c)c}{f} - 1$$

$$(9) \quad a = g \cdot c$$

$$(10) \quad b = g \cdot (1 - c)$$

$$(11) \quad d = 1 - (1 - h) \cdot (1 - \text{Beta}[K_{IRBR}; a, b])$$

$$(12) \quad K[x] = (1 - h) \cdot ((1 - \text{Beta}[x; a, b])x + \text{Beta}[x; a + 1, b]c).$$

$$(13) \quad \tau = 1000,$$

$$(14) \quad \omega = 20.$$

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

(16) *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 *financial derivative instrument* must, where the current replacement cost is not a positive value, be the potential future credit exposure calculated in accordance with ■ BIPRU 13 (Treatment of derivative instruments).

(17) K_{IRBR} is the ratio of (a) K_{IRB} to (b) the sum of the *exposure* values of the *exposures* that have been *securitised*. K_{IRBR} is expressed in decimal form (for example, K_{IRB} equal to 15% of the pool would be expressed as K_{IRBR} of 0.15).

(18) *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 must not be included in the measured L. Amounts due by counterparties to *financial derivative instruments* 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.

- (19) N is the effective number of exposures calculated in accordance with ■ BIPRU 9.12.17 R - ■ BIPRU 9.12.18 R. In the case of *resecuritisations*, the *firm* must look at the number of *securitisation exposures* in the pool and not the number of underlying *exposures* in original pools from which the underlying *securitisation exposures* stem.
- (20) ELGD, the *exposure-weighted average loss-given-default*, is calculated as follows:

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

- (21) In (20) LGD_i represents the average *LGD* associated with all *exposures* to the i^{th} obligor, where *LGD* is determined in accordance with ■ BIPRU 4. In the case of *resecuritisation*, an *LGD* of 100% must be applied to the *securitised* positions. When default risk 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 must be constructed as a weighted average of the *LGD* for credit risk and the 75% *LGD* for *dilution risk*. The weights are the stand-alone capital charges for credit risk and *dilution risk* respectively.

[Note: BCD Annex IX Part 4 point 53 (part)]

Simplified inputs

9.12.23

R

- (1) Under the *supervisory formula method*, 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 *firm* may set *LGD* equal 50% and N equal to either:

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

;or

(b) $N = 1 / C_1$.

- (2) 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 *firm*.
- (3) For *securitisations* involving *retail exposures*, the *supervisory formula method* may be implemented using the simplifications: $h = 0$ and $v = 0$.

[Note: BCD Annex IX Part 4 point 53 (part)]

- 9.12.24 **G** Where a *securitisation of retail exposures* has a sufficiently low value of N for the simplification in ■ BIPRU 9.12.23 R (3) to result in a material change in the capital charge as compared to the position if the approach in ■ BIPRU 9.12.23 R were not taken, a *firm* should discuss with the *appropriate regulator* the suitability of its use.

Liquidity Facilities

- 9.12.25 **R** The provisions in ■ BIPRU 9.12.26 R to ■ BIPRU 9.12.28 G apply for the purposes of determining the *exposure* value of an unrated *securitisation position* in the form of certain types of *liquidity facility*.

[Note: BCD Annex IX Part 4 point 55]

Liquidity facilities only available in the event of general market disruption

- 9.12.26 **R** [deleted]

Cash advance facilities

- 9.12.27 **R** A conversion figure of 0% may be applied to the nominal amount of a *liquidity facility* that meets the conditions set out in ■ BIPRU 9.11.12 R.

[Note: BCD Annex IX Part 4 point 57]

Exceptional treatment for liquidity facilities where KIRB cannot be calculated

- 9.12.28 **G**
- (1) When it is not practical for the *firm* to calculate the *risk weighted exposure amounts* for the *securitised exposures* as if they had not been *securitised* and the position does not qualify for the *ABCP internal assessment approach*, a *firm* may apply to the *appropriate regulator* for a variation of its *IRB permission* under which, on an exceptional basis, it may temporarily apply the method in (2) 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 a *liquidity facility* set out in ■ BIPRU 9.11.10 R.
 - (2) Under the method in this paragraph, 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. In other cases a conversion factor of 100% must be applied.

[Note: BCD Annex IX Part 4 points 58 and 59]

9.13 Securitisations of revolving exposures with early amortisation provisions

- 9.13.1** **R** Where there is a *securitisation of revolving exposures* subject to an *early amortisation provision*, the *originator* must calculate an additional *risk weighted exposure amount* in accordance with this section 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*. Accordingly this section sets out how an *originator* must calculate a *risk weighted exposure amount* when it sells *revolving exposures* into a *securitisation* that contains an *early amortisation provision*.

[Note: BCD Article 100(1), Annex IX Part 4 points 16 and 68]

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

- 9.13.2** **R** A *firm* must calculate a *risk weighted exposure amount* in respect of the sum of the *originators* interest and the investors interest.

[Note: BCD Annex IX Part 4 point 17]

- 9.13.3** **R** For *securitisation* structures where the *securitised exposures* comprise *revolving exposures* and non-revolving *exposures*, an *originator* must apply the treatment set out in this section to that portion of the underlying pool containing *revolving exposures*.

[Note: BCD Annex IX Part 4 point 18]

- 9.13.4** **R** For the purposes of this section, subject to ■ BIPRU 9.13.6 R:

- (1) *originators* 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 cash-flows 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*;
- (2) to qualify as such the *originators* interest may not be subordinate to the investors interest; and

- (3) investors interest means the exposure value of the remaining notional part of the pool of drawn amounts.

[Note: BCD Annex IX Part 4 point 19]

9.13.5

R

Subject to ■ BIPRU 9.13.7 R, the *exposure* of the *originator* associated with its rights in respect of the *originators* interest must not be treated as a *securitisation position* but as a *pro rata exposure* to the *securitised exposures* as if they had not been *securitised*.

[Note: BCD Annex IX Part 4 point 20]

9.13.6

R

- (1) For *firms* using the *IRB approach* set out in ■ BIPRU 4, this paragraph applies in place of ■ BIPRU 9.13.4 R.

- (2) For the purposes of this section, *originators* interest means 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 cash-flows 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*; and

(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 (a) to the exposure value of the pool of drawn amounts sold into the *securitisation*.

- (3) To qualify as such the *originators* interest may not be subordinate to the investors interest.

- (4) Investors interest means the exposure value of the notional part of the pool of drawn amounts not falling within (2)(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 (2)(b).

[Note: BCD Annex IX Part 4 points 69 and 70]

9.13.7

R

For *firms* using the *IRB approach* set out in ■ BIPRU 4, this paragraph applies in place of ■ BIPRU 9.13.5 R. The *exposure* of the *originator* associated with its rights in respect of that part of the *originators* interest described in ■ BIPRU 9.13.6 R (2)(a) must not be treated as a *securitisation position* but as a *pro rata exposure* to the *securitised* drawn amounts as if they had not been *securitised* in an amount equal to that described in ■ BIPRU 9.13.6 R (2)(a). The *originator* must 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 ■ BIPRU 9.13.6 R (2)(b).

[Note: BCD Annex IX Part 4 point 71]

Exemptions from early amortisation treatment

9.13.8 **R** *Originators* of the following types of *securitisation* are exempt from the capital requirement in ■ BIPRU 9.13.1 R:

- (1) *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* even after an early amortisation event has occurred; and
- (2) *securitisations* where any *early amortisation provision* is solely triggered by events not related to the performance of the *securitised* assets or the *originator*, such as material changes in tax laws or regulations.

[Note: BCD Annex IX Part 4 point 21]

Maximum capital requirement

9.13.9 **R** For an *originator* subject to the capital requirement in ■ BIPRU 9.13.1 R the total of the *risk weighted exposure amounts* in respect of its positions in the investors interest (as defined in ■ BIPRU 9.13.4 R or ■ BIPRU 9.13.6 R) and the *risk weighted exposure amounts* calculated under ■ BIPRU 9.13.1 R must be no greater than the greater of:

- (1) the *risk weighted exposure amounts* calculated in respect of its positions in the investors interest (as so defined); and
- (2) the *risk weighted exposure amounts* that would be calculated in respect of the *securitised exposures* by a *firm* holding the *exposures* as if they had not been *securitised* in an amount equal to the investors interest (as so defined).

[Note: BCD Annex IX Part 4 point 22]

9.13.10 **R** Deduction of net gains, if any, arising from the capitalisation of future income required under ■ GENPRU 2.2.90 R (Core tier one capital: profit and loss account and other reserves: Securitisation) must be treated outside the maximum amount indicated in ■ BIPRU 9.13.9 R.

[Note: BCD Annex IX Part 4 point 23]

Calculation of risk-weighted exposure amounts

9.13.11 **R** The *risk weighted exposure amount* to be calculated in accordance with ■ BIPRU 9.13.1 R must be determined by multiplying the amount of the investors interest (as defined in ■ BIPRU 9.13.4 R or ■ BIPRU 9.13.6 R) by the product of:

- (1) the appropriate conversion figure as indicated in ■ BIPRU 9.13.16 R, ■ BIPRU 9.13.19 R or ■ BIPRU 9.13.20 R; and
- (2) the weighted average *risk weight* that would apply to the *securitised exposures* if the *exposures* had not been *securitised*.

[Note: BCD Annex IX Part 4 point 24]

- 9.13.12** **R** An *early amortisation provision* must be treated as controlled for the purposes of this section where the following conditions are met:
- (1) the *originator* 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;
 - (2) throughout the duration of the transaction there is a pro rata sharing between the *originators* interest and the investors interest (as defined in ■ BIPRU 9.13.4 R or ■ BIPRU 9.13.6 R) 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;
 - (3) the amortisation period is considered sufficient for 90% of the total debt (*originators* and investors interest (as defined in ■ BIPRU 9.13.4 R or ■ BIPRU 9.13.6 R)) outstanding at the beginning of the early amortisation period to have been repaid or recognised as in default; and
 - (4) the speed of repayment is no more rapid than would be achieved by straight-line amortisation over the period set out in (3).
- [Note: BCD Annex IX Part 4 point 25]
- 9.13.13** **R** In the case of a *securitisation* meeting the following conditions:
- (1) it is subject to an *early amortisation provision*;
 - (2) the *securitisation* is of *retail exposures* which are uncommitted and unconditionally cancellable without prior notice; and
 - (3) the early amortisation is triggered by the *excess spread* level falling to a specified level
- a *firm* must, to calculate the appropriate conversion figure referred to in ■ BIPRU 9.13.11 R, compare the three-month average *excess spread* level with the *excess spread* levels at which *excess spread* is required to be trapped.
- [Note: BCD Annex IX Part 4 point 26]
- 9.13.14** **R** 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.
- [Note: BCD Annex IX Part 4 point 27]
- 9.13.15** **R** The conversion figure to be applied must be determined by the level of the actual three month average *excess spread* in accordance with ■ BIPRU 9.13.16 R.
- [Note: BCD Annex IX Part 4 point 28]
- 9.13.16** **R** Table: Conversion figures
- This table belongs to ■ BIPRU 9.13.15 R

3 months average excess spread	Securitisations subject to a controlled early amortisation provision	Securitisation subject to a non-controlled early amortisation provision
	Conversion figure	Conversion figure
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%

9.13.17

R

In ■ BIPRU 9.13.16 R:

- (1) 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;
- (2) 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;
- (3) 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;
- (4) 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
- (5) Level E means levels of *excess spread* less than 25% of the trapping level of *excess spread*.

[Note: BCD Annex IX Part 4 point 29]

9.13.18

G

In the case of a *securitisation* meeting the conditions in this paragraph, a *firm* may apply to the *appropriate regulator* for a *waiver* that would allow a treatment which approximates closely to that prescribed in ■ BIPRU 9.13.13 R to ■ BIPRU 9.13.17 R for determining the conversion figure indicated. If a *firm* wants such a *waiver*, it should satisfy the *appropriate regulator* that:

- (1) the *securitisation* is subject to an *early amortisation provision* of retail *exposures*;
- (2) those retail *exposures* are uncommitted and unconditionally cancellable without prior notice;
- (3) the early amortisation is triggered by a quantitative value in respect of something other than the three month average *excess spread*;
- (4) the *firm* can establish a quantitative measure equivalent, in relation to the value in (3), to the trapping level of *excess spread*; and

(5) that treatment is a prudent measure of the risk that the levels of credit risk to which it is exposed may increase following the operation of the *early amortisation provision* (referred to in BIPRU 9.13.1R).

[Note: BCD Annex IX Part 4 point 30]

9.13.19 **R** All other *securitisations* subject to a controlled *early amortisation provision* of *revolving exposures* are subject to a credit conversion figure of 90%.

[Note: BCD Annex IX Part 4 point 32]

9.13.20 **R** All other *securitisations* subject to a non-controlled *early amortisation provision* of *revolving exposures* are subject to a credit conversion figure of 100%.

[Note: BCD Annex IX Part 4 point 33]

Liquidity plans

9.13.21 **R** A *firm* which is an *originator* of a revolving *securitisation* transaction involving *early amortisation provisions* should have liquidity plans to address the implications of both scheduled and early amortisation.

[Note: BCD Annex V point 9]

9.14 Recognition of credit risk mitigation on securitisation positions under the IRB approach

9.14.1 **R** This section applies to *credit risk mitigation* in relation to a *securitisation position* for a *firm* calculating *risk weighted exposure amounts* using the *IRB approach*.

[Note: BCD Annex IX Part 4 point 37 (part)]

9.14.2 **R** Where a *firm* uses the *ratings based method* to calculate the *risk weighted exposure amounts* of *securitisation positions*, the *firm* may recognise *credit risk mitigation* in accordance with ■ BIPRU 9.14.4 R to ■ BIPRU 9.14.6 R.

[Note: BCD Annex IX Part 4 point 51]

9.14.3 **R** Where a *firm* uses the *supervisory formula method* to calculate the *risk weighted exposure amounts* of *securitisation positions*, the *firm* may recognise *credit risk mitigation* in accordance with ■ BIPRU 9.14.4 R to ■ BIPRU 9.14.5 R and ■ BIPRU 9.14.7 R to ■ BIPRU 9.14.13 R.

[Note: BCD Annex IX Part 4 point 54]

Funded protection

9.14.4 **R** 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 ■ BIPRU 5 and recognition is subject to compliance with the relevant minimum requirements as laid down under ■ BIPRU 5.

[Note: BCD Annex IX Part 4 point 60]

Unfunded credit protection

9.14.5 **R** Eligible unfunded credit protection and unfunded protection providers are limited to those which are eligible under ■ BIPRU 5 (Credit risk mitigation) and ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach) and recognition is subject to compliance with the relevant minimum requirements laid down under those provisions.

[Note: BCD Annex IX Part 4 point 61]

Credit risk mitigation under the ratings based method

- 9.14.6 **R** 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 ■ BIPRU 5 (Credit risk mitigation) as they apply for the calculation of *risk weighted exposure amounts* under the *standardised approach* set out in ■ BIPRU 3.

[Note: BCD Annex IX Part 4 point 62]

Credit risk mitigation under the supervisory formula method full credit protection

- 9.14.7 **R** ■ BIPRU 9.14.8 R ■ BIPRU 9.14.10 R apply where *risk weighted exposure amounts* are calculated using the *supervisory formula method* where there is full credit protection.

[Note: BCD Annex IX Part 4 point 63 (part)]

- 9.14.8 **R** A *firm* must determine the effective *risk weight* of the position. It must 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.

[Note: BCD Annex IX Part 4 point 63 (part)]

- 9.14.9 **R** In the case of funded credit protection, the *risk weighted exposure amount* of the *securitisation position* must be calculated by multiplying the funded protection-adjusted *exposure amount* of the position (E^* , as calculated under ■ BIPRU 5.4.28 R (3), taking the amount of the *securitisation position* to be E) by the effective *risk weight*.

[Note: BCD Annex IX Part 4 point 64]

- 9.14.10 **R** In the case of unfunded credit protection, the *risk weighted exposure amount* of the *securitisation position* must be calculated by multiplying G_A (the amount of the protection adjusted for any currency mismatch and maturity mismatch in accordance ■ BIPRU 5.7.23 R (2)) 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*.

[Note: BCD Annex IX Part 4 point 65]

Credit risk mitigation under the supervisory formula method partial protection

- 9.14.11 **R** ■ BIPRU 9.14.12 R ■ BIPRU 9.14.13 R apply where *risk weighted exposure amounts* are calculated using the *supervisory formula method* where there is partial protection.

- 9.14.12 **R** If the *credit risk mitigation* covers the first loss or losses on a proportional basis on the *securitisation position*, a *firm* may apply ■ BIPRU 9.14.7 R to ■ BIPRU 9.14.10 R.
[Note: BCD Annex IX Part 4 point 66]
- 9.14.13 **R** In other cases the *firm* must treat the *securitisation position* as two or more positions with the uncovered portion being the position with the lower credit quality. For the purposes of calculating the *risk weighted exposure amount* for this position, the provisions in ■ BIPRU 9.12.22 R to ■ BIPRU 9.12.24 G apply subject to the modifications that T is adjusted to e^* in the case of funded credit protection; and to $T-g$ in the case of unfunded credit 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 ■ BIPRU 5.4.28 R (3) 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 ■ BIPRU 5 (Credit risk mitigation)) 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 must be applied to that portion of the position not falling within the adjusted value of T.
[Note: BCD Annex IX Part 4 point 67]



9.15 Requirements for investors

- 9.15.1 **R**
- 9.15.1A **R**
- 9.15.1B **G**
- 9.15.2 **G**
- 9.15.3 **R**
- 9.15.4 **R**
- 9.15.5 **R**
- 9.15.6 **R**
- 9.15.7 **R**
- 9.15.8 **R**
- 9.15.9 **R**
- 9.15.10 **R**
- 9.15.11 **R**
- 9.15.12 **R**
- 9.15.13 **R**

9.15.14 **R**

9.15.15 **R**

9.15.16 **R**

9.15.16A **R**

9.15.16B **R**

9.15.16C **G**

9.15.16D **G**

9.15.16E **G**

9.15.17 **G**

9.15.18 **G**