

- (a) an SPE in a securitization transaction issues debt securities with an original maturity of not more than one year; and
- (b) the payments in respect of those debt securities are secured by a pool of underlying exposures acquired from third parties and held by, or to the order of, that SPE;

“clean-up call” (結清權)—

- (a) in relation to a traditional securitization transaction, means an option which permits the originator in the transaction to repurchase the outstanding securitization issues of the transaction once the amount of the outstanding securitization issues, or of the underlying exposures that have not been repaid, has fallen below a level specified in the documentation for the transaction;
- (b) in relation to a synthetic securitization transaction, means an option which permits the person providing credit protection under the documentation for the transaction to extinguish the credit protection once the amount of the reference pool of underlying exposures has fallen below a level specified in the documentation;

“committed credit line” (有承諾信貸安排) means a credit line provided by an authorized institution to a borrower which is not an uncommitted credit line;

“credit enhancement” (信用提升), in relation to a securitization exposure under a securitization transaction, means a contractual arrangement whereby a person—

- (a) retains or assumes credit risk in respect of the exposure; and
- (b) provides, in substance, some degree of credit protection to one or more than one other party to the transaction;

“credit-enhancing interest-only strip” (提升信用的純利息份額), in relation to a securitization transaction, means an on-balance sheet exposure which is—

- (a) recorded by the originator in the transaction as representing the expected future excess spread to be derived from the underlying exposures; and
- (b) subordinated to claims from other parties to the transaction in terms of the priority of repayment;

“credit equivalent amount” (信貸等值數額)—

- (a) in relation to an off-balance sheet securitization exposure of an authorized institution which uses the STC(S) approach, subject to paragraph (c), has the meaning assigned to it by section 51, with all necessary modifications;

- (b) in relation to an off-balance sheet securitization exposure of an authorized institution which uses the IRB(S) approach, subject to paragraph (d), has the meaning assigned to it by section 139(1), with all necessary modifications;
- (c) in relation to the calculation of investors' interest under the STC(S) approach, means the credit equivalent amount of the undrawn balances to which investors are exposed calculated under section 245(1)(b);
- (d) in relation to the calculation of investors' interest under the IRB(S) approach, means the credit equivalent amount of the undrawn balances to which investors are exposed calculated under section 257(1)(b);

“drawn balance” (已提取數額), in relation to the calculation of investors' interest, means the amount which has been drawn down by a borrower under a revolving credit line, where—

- (a) the credit line has been sold, or the credit risk of the credit line has been transferred, to a third party in a securitization transaction; and
- (b) the investors in the transaction remain, in whole or in part, exposed to future drawings by the borrower under the credit line;

“early amortization period” (提早攤銷期), in relation to a securitization transaction in which the underlying exposures are revolving in nature, means the period of time within which the originator in the transaction is obliged to fulfil the originator's obligations under an early amortization provision in the documentation for the transaction once the early amortization provision has been triggered;

“early amortization provision” (提早攤銷規定), in relation to a securitization transaction in which the underlying exposures are revolving in nature, means a mechanism which, once triggered, allows investors in the securitization issues to be paid out prior to the originally stated maturity of the securitization issues held by the investors;

“excess spread” (超額利差), in relation to a securitization transaction, means future interest and other income derived by the SPE in the transaction from the underlying exposures in the transaction in excess of the transaction costs specified in the documentation for the transaction, expressed as a percentage of the underlying exposures;

“first loss tranche” (首先損失份額), in relation to a securitization transaction, means the tranche (including, where the underlying exposures in the transaction are purchased receivables, the tranche in the form of a refundable discount on the purchase price of the receivables provided by the seller of the receivables) which will be exposed first to any credit loss associated with the underlying exposures in the transaction up to a specified or ascertainable level;

“gain-on-sale” (出售收益), in relation to a securitization transaction, means any increase in the core capital of the originating institution resulting from the sale of underlying exposures in the transaction;

“implicit support” (隱性支持), in relation to a securitization transaction, means any direct or indirect support which the originating institution provides (or has provided) to investors in the transaction in excess of its predetermined contractual obligations, with a view to reducing potential or actual losses that the investors may suffer;

“inferred rating” (推斷評級), in relation to an authorized institution which uses the ratings-based method, means a credit assessment rating attributed by the institution pursuant to section 263 to a securitization exposure of the institution which does not have an ECAI issue specific rating;

“investing institution” (投資機構), in relation to a securitization transaction, means an authorized institution which is an investor in the transaction;

“investment grade” (投資等級)—

(a) in relation to the use by an authorized institution of the STC(S) approach, means a credit quality grade of 1, 2 or 3 for long-term or short-term ECAI issue specific ratings, as the case requires, assigned to a securitization exposure in accordance with Schedule 11;

(b) in relation to the use by an authorized institution of the IRB(S) approach, means a credit quality grade of—

(i) 1, 2, 3, 4, 5, 6, 7 or 8 for long-term ECAI issue specific ratings; or

(ii) 1, 2 or 3 for short-term ECAI issue specific ratings, as the case requires, assigned to a securitization exposure in accordance with Schedule 14;

“investor” (投資者), in relation to a securitization transaction, means any person, other than the originator in the transaction, who assumes securitization exposures by—

(a) purchasing securitization issues;

(b) providing credit protection to other parties to the transaction; or

(c) providing liquidity facilities in respect of the transaction;

“investors’ interest” (投資者權益), in relation to a securitization transaction in which the underlying exposures are revolving in nature and which is subject to an early amortization provision, means the investors’ interest in the underlying exposures in the transaction as determined under section 245(1) or 257(1), as the case requires;

“liquidity facility” (流動資金融通), in relation to an authorized institution, means an off-balance sheet securitization exposure of the institution arising from a contractual agreement pursuant to which the institution provides funding in respect of a securitization transaction to ensure the timeliness of cash flows to investors in the securitization issues in the transaction;

“long-term inferred rating” (長期推斷評級), in relation to a securitization exposure of an authorized institution, means an inferred rating which is a long-term credit assessment rating attributed to the exposure by the institution;

“look-through treatment” (對應法), in relation to a securitization position held by an authorized institution in a securitization transaction, means a method of determining the risk-weight of the position by reference to—

- (a) subject to paragraph (b), the risk-weight applicable to the underlying exposures in the transaction; or
- (b) if the underlying exposures consist of different classes of exposures, the weighted average risk-weight applicable to the underlying exposures in the transaction,

based on the STC approach or BSC approach, as the case requires;

“originating institution” (發起機構), in relation to a securitization transaction, means an authorized institution which is the originator in the transaction;

“originator” (發起人), in relation to a securitization transaction, means a person who—

- (a) directly or indirectly originates the underlying exposures in the transaction; or
- (b) serves as a sponsor of an ABCP programme or a programme with similar features;

“principal amount” (本金額)—

- (a) in relation to an on-balance sheet securitization exposure of an authorized institution, means the book value of the exposure;
- (b) in relation to an off-balance sheet securitization exposure of an authorized institution, means an amount which is—
 - (i) subject to subparagraph (ii), the contracted amount of the exposure;
 - (ii) in the case of such an exposure which is the undrawn portion of a partially drawn facility, the amount of the undrawn commitment;

“rated” (獲評級), in relation to a securitization exposure, means that the exposure has—

- (a) an ECAI issue specific rating; or
- (b) if paragraph (a) does not apply, an inferred rating;

“ratings-based method” (評級基準方法), in relation to the use of the IRB(S) approach to calculate an authorized institution’s credit risk for rated securitization exposures, means the method of calculating that risk set out in Divisions 4 and 5;

“revolving” (循環), in relation to an underlying exposure of an authorized institution in a securitization transaction, means that the borrower’s outstanding balance of the exposure is permitted to fluctuate based on the borrower’s decision to borrow and repay, up to a limit established by the institution;

“second loss tranche” (第二損失份額), in relation to a securitization transaction, means the tranche which will be exposed to any credit loss associated with the underlying exposures in the transaction up to a specified or ascertainable level after the credit enhancement provided by the first loss tranche has been exhausted;

“securitization exposure” (證券化類別風險承擔), in relation to an authorized institution, means the institution’s credit exposure to a securitization transaction booked in its banking book, and includes such an exposure arising from—

- (a) the purchase or repurchase of securitization issues;
- (b) the provision of credit protection or credit enhancement to any of the parties to the transaction;
- (c) the retention of one or more than one securitization position;
- (d) the provision of a liquidity facility or servicer cash advance facility for the transaction; and
- (e) the obligation to acquire any investors’ interest in the transaction if the transaction is subject to an early amortization provision;

“securitization issues” (證券化票據), in relation to a securitization transaction, means the securities issued by the issuer in the transaction;

“securitization position” (證券化持倉), in relation to an authorized institution, means an exposure of the institution to one of the different tranches in a securitization transaction;

“securitization transaction” (證券化交易), means a transaction involving the tranching of credit risk associated with a pool of underlying exposures and in respect of which—

- (a) there are not less than 2 different tranches;
- (b) payments to investors or other parties to the transaction depend on the performance of the underlying exposures; and
- (c) the subordination of tranches determines the distribution of losses during the life of the transaction;

“servicer cash advance facility” (服務者現金墊支融通), in relation to an authorized institution which provides credit administration services in respect of the underlying exposures in a securitization transaction, means an off-balance sheet securitization exposure of the institution arising from a contractual agreement pursuant to which the institution advances cash in respect of the transaction to ensure an uninterrupted flow of payments to investors in the securitization issues in the transaction;

“short-term inferred rating” (短期推斷評級), in relation to a securitization exposure of an authorized institution, means an inferred rating which is a short-term credit assessment rating attributed to the exposure by the institution;

“SPE” means a special purpose entity;

“special purpose entity” (特定目的實體) means a company, trust or other entity—

- (a) which is created for the sole purpose of acquiring and holding the underlying exposures in a traditional securitization transaction or assuming credit risk in respect of the underlying exposures in a synthetic securitization transaction, as the case may be, and engaging in activities related or incidental to the issuance of securitization issues in the transaction; and
- (b) which insulates the underlying exposures transferred to it from the effects of default, insolvency or bankruptcy of the originator in the transaction;

“sponsor” (保薦人), in relation to an ABCP programme or a programme with similar features, means a person who establishes the programme and manages, or participates in the management of, the programme by performing one or more of the following activities—

- (a) approving the sellers to participate in the programme;
- (b) approving the pool of underlying exposures to be purchased under the programme;
- (c) administering the programme, including arranging for the placement into the market of securities issued under the programme; or
- (d) providing any credit enhancement or liquidity facility in respect of the programme;

“supervisory formula” (監管公式) means Formula 25 set out in section 270;

“supervisory formula method” (監管公式方法), in relation to the use of the IRB(S) approach to calculate an authorized institution’s credit risk for unrated securitization exposures, means the method of calculating that risk set out in Divisions 4 and 6;

“synthetic securitization transaction” (合成證券化交易) means a securitization transaction where the credit risk of a reference pool of underlying exposures is transferred, in whole or in part, through the use of credit protection afforded to the underlying exposures which remain on the balance sheet of the originator in the transaction;

“traditional securitization transaction” (傳統證券化交易) means a securitization transaction where—

(a) a pool of underlying exposures is sold by the originator in the transaction to an SPE; and

(b) the cash flows from the pool of underlying exposures are used to service payments to investors or other parties to the transaction;

“tranche” (份額) means a contractually established segment (referred to in this definition as “relevant segment”) of the credit risk associated with a pool of underlying exposures in a securitization transaction where—

(a) a position in the relevant segment entails a risk of credit loss greater than, or less than, that of a position of the same amount in each other contractually established segment; and

(b) no account is taken of credit protection provided by third parties directly to the holders of positions in the relevant segment or in other contractually established segments;

“uncommitted credit line” (無承諾信貸安排) means a credit line provided by an authorized institution to a borrower which is unconditionally cancellable by the institution without prior notice to the borrower;

“underlying exposures” (組成項目), in relation to a securitization transaction, means one or more than one on-balance sheet or off-balance sheet exposure in respect of which credit risk is transferred to one or more than one person by the originator in the transaction;

“undrawn balance” (未提取數額), in relation to the calculation of investors’ interest, means the amount which has not been drawn down by a borrower under a revolving credit line where—

(a) the credit line has been sold, or the credit risk of the credit line has been transferred, to a third party in a securitization transaction; and

(b) the investors in the transaction remain, in whole or in part, exposed to future drawings by the borrower under the credit line;

“unrated” (無評級), in relation to a securitization exposure, means that the exposure is not a rated exposure;

“weighted average risk-weight” (加權平均風險權重), in relation to a securitization transaction where the underlying exposures consist of different classes of exposures, means the risk-weight of the pool of exposures derived by dividing the total risk-weighted amount of all exposures in the pool (being the sum of individual risk-weighted amounts calculated in respect of each class of exposures) by the total principal amount of the exposures in the pool.

(2) For the avoidance of doubt, it is hereby declared that no reference in this Part to a securitization transaction shall be construed as excluding a reference to a securitization transaction which has more than one originator or more than one SPE.

Division 2—Requirements applicable to use of STC(S) approach or IRB(S) approach

228. Application of Division 2

(1) This Division applies to an authorized institution which uses the STC(S) approach or IRB(S) approach to calculate its credit risk for securitization exposures.

(2) Unless the context otherwise requires, a reference to an authorized institution in this Division is a reference to an authorized institution which uses the STC(S) approach or IRB(S) approach to calculate its credit risk for securitization exposures.

229. Treatment to be accorded to securitization transaction by originating institution

(1) Subject to subsection (2), an originating institution in a securitization transaction may, with the prior consent of the Monetary Authority—

- (a) in the case of a traditional securitization transaction where all the requirements of Schedule 9 applicable to or in relation to the institution and the transaction have been satisfied, exclude the underlying exposures in the transaction from the calculation of the risk-weighted amount of its credit exposures under Part 4, 5 or 6, as the case requires;
- (b) in the case of a synthetic securitization transaction where all the requirements of Schedule 10 applicable to or in relation to the institution and the transaction have been satisfied, calculate the risk-weighted amount of the underlying exposures in the transaction in accordance with section 243 or 255, as the case requires.

(2) Notwithstanding that a securitization transaction falls within subsection (1), the originating institution shall provide regulatory capital against any securitization exposure which it retains, holds or purchases under the transaction.

(3) Subject to subsection (4), the originating institution in a traditional securitization transaction which does not fall within subsection (1)(a) shall risk-weight the underlying exposures in the transaction in accordance with the approach to the calculation of the institution's credit risk set out in Part 4, 5 or 6, as the case requires, which the institution uses for the class of exposures into which the underlying exposures fall.

(4) Notwithstanding that a traditional securitization transaction does not fall within subsection (1)(a), the originating institution shall not include in its capital base as determined in accordance with Part 3 any gain-on-sale arising from the transaction.

(5) The originating institution in a synthetic securitization transaction which does not fall within subsection (1)(b)—

(a) shall risk-weight the underlying exposures in the transaction in accordance with the approach to the calculation of the institution's credit risk set out in Part 4, 5 or 6, as the case requires, which the institution uses for the class of exposures into which the underlying exposures fall; and

(b) shall not take into account the effect of any credit risk mitigation used for transferring credit risk in respect of the underlying exposures to other parties to the transaction in the calculation of the risk-weighted amount of the underlying exposures in the transaction.

230. Measures which may be taken by Monetary Authority if originating institution provides implicit support

(1) The originating institution in a securitization transaction which falls within section 229(1) shall not provide implicit support to investors in the transaction.

(2) Where the originating institution in a securitization transaction provides implicit support in contravention of subsection (1), the Monetary Authority may, after having had regard to the materiality of the contravention—

(a) by notice in writing given to the institution, require the institution not to use (or, where applicable, withdraw any consent of the Monetary Authority for the institution to use) section 229(1)(a) or section 229(1)(b), or both—

(i) for that securitization transaction; or

- (ii) for other securitization transactions in respect of which the institution is the originating institution for such period, or until the occurrence of such event, as specified by the Monetary Authority in the notice;
 - (b) by notice in writing given to the institution, require the institution to publicly disclose—
 - (i) particulars of the implicit support; and
 - (ii) the impact of the implicit support on the institution's regulatory capital; or
 - (c) by notice in writing given to the institution, advise the institution that the Monetary Authority is considering exercising the power under section 101 of the Ordinance to vary the capital adequacy ratio of the institution by increasing it.
- (3) The originating institution in a securitization transaction shall comply with the requirements of a notice given to it under subsection (2)(a) or (b).
- (4) Where—
- (a) a securitization transaction contains a clean-up call; and
 - (b) the clean-up call can be exercised by the originating institution in circumstances where the exercise of the clean-up call has the effect of providing credit enhancement,
- the clean-up call shall be treated as implicit support and this section applies to the originating institution in the transaction which contains the clean-up call accordingly.
- (5) For the avoidance of doubt, it is hereby declared that subsection (2)(c) does not operate to prejudice the generality of the circumstances in respect of which the Monetary Authority may exercise the power under section 101 of the Ordinance in the case of an authorized institution to which that subsection applies.

231. Use of external credit assessments for determination of risk-weights

Subject to section 232, section 70 relating to ECAI ratings applies, for the purposes of this Part and with all necessary modifications, to and in relation to securitization exposures.

232. Provisions applicable to ECAI issue specific ratings in addition to those applicable under Part 4

For the purposes of calculating the risk-weighted amount of an authorized institution's rated securitization exposures—

- (a) subject to paragraphs (b) and (c), the institution shall use ECAI issue specific ratings issued by the same ECAs consistently for a given class of securitization exposures;

- (b) the institution shall not, in respect of the same securitization transaction entered into by the institution, use ECAI issue specific ratings issued by an ECAI for one or more than one securitization position held by the institution in the transaction and the ECAI issue specific ratings issued by another ECAI for other securitization positions held by the institution in the transaction which may or may not be rated by the first-mentioned ECAI;
- (c) if 2 or more ECAs have different ECAI issue specific ratings applicable to the same securitization exposure held by the institution, the institution shall apply section 69(2)(b) in determining the risk-weight to be applied to that securitization exposure;
- (d) if, in a securitization transaction entered into by the institution, credit protection is—
 - (i) provided directly to the SPE in the transaction by a credit protection provider which falls within section 98(a) or 99(1)(b); and
 - (ii) reflected in the ECAI issue specific rating assigned to a securitization exposure held by the institution in the transaction,
the institution—
 - (iii) shall determine the risk-weight to be applied to the securitization exposure by reference to that rating; and
 - (iv) shall not otherwise recognize, for the purposes of this Part, that credit protection;
- (e) if, in a securitization transaction entered into by the institution, credit protection is provided directly to the SPE in the transaction by a credit protection provider which does not fall within section 98(a) or 99(1)(b) and a securitization exposure held by the institution in the transaction is covered by the credit protection, the institution shall treat that securitization exposure as unrated;
- (f) if a rated securitization exposure held by the institution is covered by credit protection which has the effect of reducing the risk-weighted amount of the exposure according to Part 4, 5 or 6, but the credit protection is not provided directly to the SPE in the transaction, the institution shall—
 - (i) treat the exposure as if it were unrated; and
 - (ii) use the credit risk mitigation treatment specified in Part 4, 5 or 6, as the case requires, to recognize the effect of the credit protection which applies to that exposure.

Division 3—Risk-weighting requirements under STC(S) approach

233. Application of Division 3

(1) This Division applies to an authorized institution which uses the STC(S) approach to calculate its credit risk for securitization exposures.

(2) Unless the context otherwise requires, a reference to an authorized institution in this Division is a reference to an authorized institution which uses the STC(S) approach to calculate its credit risk for securitization exposures.

234. Calculation of risk-weighted amount of securitization exposures

(1) Subject to subsections (2), (3), (4) and (5), an authorized institution shall calculate the risk-weighted amount of a rated securitization exposure held by it by applying the relevant risk-weight to the exposure by reference to its ECAI issue specific rating or otherwise in accordance with these Rules.

(2) Subject to subsections (4) and (5), an authorized institution shall calculate the risk-weighted amount of an on-balance sheet securitization exposure by multiplying the principal amount (after deduction of specific provisions) of the exposure by the applicable risk-weight.

(3) Subject to subsections (4) and (5), an authorized institution shall calculate the risk-weighted amount of an off-balance sheet securitization exposure by—

- (a) multiplying the credit equivalent amount of the exposure (being the product of the principal amount (after deduction of specific provisions) of the exposure and the applicable CCF) by the applicable risk-weight;
- (b) unless otherwise specified in section 240 or 245, applying a CCF of 100% to the exposure.

(4) Where the stated principal amount of a securitization exposure held by an authorized institution is leveraged or enhanced by the structure of the exposure, the institution shall use the effective principal amount of the exposure taking into account that the stated principal amount is so leveraged or enhanced, as the case may be, for the purposes of this Division.

(5) Where a securitization exposure held by an authorized institution is subject to credit protection, the institution shall adjust the risk-weighted amount of the exposure in accordance with sections 247 and 248.

235. Provisions supplementary to section 234

(1) Where an authorized institution, other than the originating institution in a securitization transaction, provides credit protection to a securitization issue in the transaction, the institution providing the credit protection shall calculate its regulatory capital in respect of the credit protection as if it were an investor in the securitization issue.

(2) Where an authorized institution, other than the originating institution in a securitization transaction, provides credit protection to an unrated credit enhancement provided to other parties to the transaction, the institution providing the credit protection shall calculate its regulatory capital in respect of the credit protection as if it directly provided the credit enhancement.

236. Deductions from core capital and supplementary capital

(1) Subject to subsection (2), an authorized institution shall deduct from any of its core capital and supplementary capital—

- (a) any credit-enhancing interest-only strip recorded by the institution as the originating institution in a securitization transaction (after deduction of any gain-on-sale arising from the credit-enhancing interest-only strip);
- (b) any gain-on-sale arising from a securitization transaction where the institution is the originating institution;
- (c) any rated securitization exposure of the institution with—
 - (i) a long-term credit quality grade of 4 or 5 in the case of a securitization exposure held by the institution as the originating institution;
 - (ii) a long-term credit quality grade of 5 in the case of a securitization exposure held by the institution as an investing institution;
 - (iii) a short-term credit quality grade of 4, as allocated under Table A or Table B in Schedule 11, as the case requires;
- (d) any unrated securitization exposure of the institution except where the securitization exposure is—
 - (i) to the most senior tranche in a securitization transaction which falls within section 238(1);
 - (ii) to a second loss tranche or better in an ABCP programme which falls within section 239;
 - (iii) in respect of a liquidity facility which falls within section 240(1); or

- (iv) in respect of a servicer cash advance facility which falls within section 240(6) and which would satisfy the requirements of section 240(1) if the servicer cash advance facility were a liquidity facility; and
 - (e) any other securitization exposure specified by the Monetary Authority in a notice in writing given to the institution.
- (2) An authorized institution required by subsection (1) to make a deduction from any of its core capital and supplementary capital shall—
- (a) make the deduction based on—
 - (i) the principal amount (after deduction of specific provisions) of the deductible item if the item is an on-balance sheet securitization exposure; or
 - (ii) the credit equivalent amount of the deductible item if the item is an off-balance sheet securitization exposure;
 - (b) subject to section 49(1) and paragraph (c), make the deduction 50% from the institution's core capital and 50% from the institution's supplementary capital;
 - (c) if the deductible item falls within subsection (1)(b), make the deduction 100% from the institution's core capital.

237. Determination of risk-weights

- (1) An authorized institution shall, in respect of its rated securitization exposures—
- (a) for the purposes of determining the risk-weights to be allocated to the exposures for calculating the risk-weighted amount of the exposures, or determining whether the exposures are to be deducted from the institution's core capital and supplementary capital, map the ECAI issue specific ratings of the exposures to a scale of credit quality grades represented—
 - (i) by the numerals 1, 2, 3, 4 and 5 for long-term ECAI issue specific ratings as specified in Table A in Schedule 11; and
 - (ii) by the numerals 1, 2, 3 and 4 for short-term ECAI issue specific ratings as specified in Table B in Schedule 11; and
 - (b) allocate risk-weights to, or deduct from the institution's core capital and supplementary capital, the exposures in accordance with subsections (2) and (3).
- (2) For the purposes of subsection (1)(b), an authorized institution shall allocate risk-weights to, or deduct from the institution's core capital and supplementary capital, securitization exposures which have long-term ECAI issue specific ratings in accordance with Table 24 such that—
- (a) for those securitization exposures which map to a credit quality grade of 4, the institution shall—

- (i) allocate a risk-weight of 350% to the exposures if the institution is an investing institution; or
 - (ii) deduct the exposures from the institution's core capital and supplementary capital if the institution is the originating institution;
- (b) for those securitization exposures which do not fall within paragraph (a), the institution shall apply the treatment specified in Table 24 to the exposures regardless of whether the institution is an originating institution or investing institution.

TABLE 24

RISK-WEIGHTS OR DEDUCTIONS APPLICABLE TO LONG-TERM
CREDIT QUALITY GRADES UNDER STC(S) APPROACH

Long-term credit quality grade	Risk-weight	Deduction
1	20%	not applicable
2	50%	not applicable
3	100%	not applicable
4	350% (for investing institutions)	deduction from core capital and supplementary capital (for originating institutions)
5	not applicable	deduction from core capital and supplementary capital

(3) For the purposes of subsection (1)(b), an authorized institution shall allocate risk-weights to, or deduct from the institution's core capital and supplementary capital, securitization exposures which have short-term ECAI issue specific ratings in accordance with Table 25.

TABLE 25

**RISK-WEIGHTS OR DEDUCTIONS APPLICABLE TO SHORT-TERM
CREDIT QUALITY GRADES UNDER STC(S) APPROACH**

Short-term credit quality grade	Risk-weight	Deduction
1	20%	not applicable
2	50%	not applicable
3	100%	not applicable
4	not applicable	deduction from core capital and supplementary capital

238. Most senior tranche in securitization transaction

(1) Where an authorized institution—

- (a) holds an unrated securitization position in the most senior tranche in a securitization transaction; and
- (b) knows the current composition of the pool of underlying exposures,

the institution shall determine the risk-weight to be allocated to the position by applying the look-through treatment.

(2) Where an authorized institution is determining whether a tranche is the most senior tranche in a securitization transaction, the institution shall not take into account—

- (a) any interest rate contract or exchange rate contract entered into for the purposes of hedging the respective interest rate risk or foreign exchange risk in the transaction; and
- (b) fees or other similar payments due under the transaction.

(3) Where an authorized institution is unable to determine the risk-weights to be allocated in accordance with subsection (1) because it does not know the current composition of the pool of underlying exposures referred to in subsection (1)(b), the institution shall deduct the securitization position referred to in subsection (1) from its core capital and supplementary capital.

**239. Securitization positions which are in second loss
tranche or better in ABCP programmes**

Where—

- (a) an authorized institution holds an unrated securitization position in an ABCP programme;

- (b) the position is protected by credit enhancement provided by the first loss tranche in the programme;
- (c) the position is of comparable credit quality to a securitization position having an ECAI issue specific rating which maps to an investment grade according to the scale of credit quality grades in Table A or Table B in Schedule 11, as the case requires; and
- (d) the institution does not also hold a securitization position in the first loss tranche in the programme,

the institution shall allocate to the securitization position a risk-weight of the greater of—

- (e) 100%; or
- (f) the highest risk-weight which would be allocated, under the approach used by the institution to calculate its credit risk set out in Part 4 or 5 for the class of exposures into which the underlying exposures in the securitization transaction would fall, to any of the underlying exposures in the securitization transaction to which the securitization position relates.

240. Treatment of liquidity facilities and servicer cash advance facilities

(1) For the purposes of subsections (2), (3) and (4), a liquidity facility provided by an authorized institution, which forms part of a securitization transaction, is an eligible liquidity facility where—

- (a) subject to paragraph (b), the facility documentation clearly identifies and limits the circumstances under which the facility may be drawn;
- (b) drawings under the facility are limited to the amount which is likely to be repaid fully from the realization of the underlying exposures in the transaction and any credit enhancement provided by the originator of the underlying exposures;
- (c) the facility is not able to be drawn so as to provide credit support to cover losses already incurred in respect of the pool of underlying exposures prior to the drawing;
- (d) there are no regular or continuous drawings under the facility to indicate that the facility is either—
 - (i) used to provide permanent or regular funding to investors in the securitization issues; or
 - (ii) structured such that drawdown is certain;
- (e) the facility is subject to an asset quality test which precludes it from being drawn to cover underlying exposures which would be regarded as in default in section 149 under the IRB approach;

- (f) if the securitization issues supported by the facility are rated, the facility can only be drawn to make payment in respect of those securitization issues which are rated as investment grade at the time of drawdown;
 - (g) the facility is not capable of being drawn after all credit enhancements from which the facility would benefit have been exhausted; and
 - (h) repayment of drawings on the facility is not subordinated to the claims of investors in the securitization issues or subject to deferral or waiver by the institution which provides the facility.
- (2) Subject to subsection (3), an authorized institution shall, in relation to the undrawn portion of a liquidity facility provided by it—
- (a) in the case of a rated liquidity facility (whether or not the facility is an eligible liquidity facility)—
 - (i) determine the risk-weight to be allocated to the undrawn portion of the facility, or whether that undrawn portion is to be deducted from the institution's core capital and supplementary capital, by applying Table 24 or 25, as the case requires, and Schedule 11 in accordance with section 237;
 - (ii) apply a CCF of 100% to the undrawn portion for the purposes of calculating the credit equivalent amount of that undrawn portion; and
 - (iii) calculate the risk-weighted amount of the undrawn portion by multiplying the credit equivalent amount by the risk-weight determined in accordance with subparagraph (i) or, if deduction referred to in that subparagraph is required, make the deduction;
 - (b) in the case of an unrated eligible liquidity facility—
 - (i) determine the risk-weight to be allocated to the undrawn portion of the facility by applying to that undrawn portion the highest risk-weight which would be applied to any of the underlying exposures covered by the facility as determined pursuant to the approach used by the institution to calculate its credit risk set out in Part 4 or 5, as the case requires, for the class of exposures into which the underlying exposures would fall;
 - (ii) apply to the undrawn portion of the facility—
 - (A) a CCF of 20% if the facility has an original maturity of not more than one year;
 - (B) a CCF of 50% if the facility has an original maturity of more than one year,

for the purposes of calculating the credit equivalent amount of that undrawn portion; and

- (iii) calculate the risk-weighted amount of the undrawn portion by multiplying the credit equivalent amount by the risk-weight determined in accordance with subparagraph (i).

(3) An authorized institution may apply a CCF of 0% to the undrawn portion of an eligible liquidity facility provided by the institution if the facility—

- (a) is only available in the event of a general market disruption and under the general market disruption, more than one SPE in different securitization transactions are unable to roll over maturing debt and that inability is not the result of an impairment in the credit quality of the SPE in the securitization transaction to which the facility relates or in the credit quality of the underlying exposures in the transaction; and
- (b) is only available to advance funds to pay investors in the securitization issues concerned which, once drawn, are secured by the underlying exposures in the securitization transaction concerned and rank not less than equally with the claims of those investors.

(4) Where a liquidity facility provided by an authorized institution is not an eligible liquidity facility and is unrated, the institution shall deduct the undrawn portion of the facility from the institution's core capital and supplementary capital.

(5) An authorized institution shall, in relation to the drawn portion of a liquidity facility provided by it—

- (a) determine the risk-weight to be allocated to the drawn portion of the facility, or whether that drawn portion is to be deducted from the institution's core capital and supplementary capital, in accordance with subsection (2)(a)(i) if the facility is rated;
 - (b) determine the risk-weight to be allocated to the drawn portion of the facility in accordance with subsection (2)(b)(i) if the facility is an eligible liquidity facility and is unrated;
 - (c) deduct the drawn portion of the facility from the institution's core capital and supplementary capital if the facility is not an eligible liquidity facility and is unrated.
- (6) Subject to subsection (7), where—
- (a) a servicer cash advance facility is provided by an authorized institution in respect of a securitization transaction;
 - (b) the institution is entitled to full reimbursement of cash advanced under the facility; and

(c) the entitlement ranks senior for payment to other claims on cash flows from the pool of underlying exposures in the transaction, subsections (1), (2), (3), (4) and (5), with all necessary modifications, apply to that servicer cash advance facility as they apply to a liquidity facility.

(7) Where a servicer cash advance facility which falls within subsection (6) is unconditionally cancellable by the authorized institution without prior notice to the person to whom the facility is provided, the institution may apply a CCF of 0% to the undrawn portion of the facility.

241. Treatment of overlapping facilities

(1) Where an authorized institution provides 2 or more facilities which may be drawn in respect of the same securitization transaction such that—

(a) duplicate coverage is provided in respect of the same underlying exposure (referred to in this subsection as “overlapping portion”); and

(b) a drawing on one such facility precludes the drawing, whether in whole or in part, on another such facility,

the institution shall—

(c) calculate the risk-weighted amount of the overlapping portion on the basis of—

(i) if the facilities are subject to the same CCF, attributing the overlapping portion to any one of the facilities;

(ii) if the facilities are subject to different CCFs, attributing the overlapping portion to the facility with the highest CCF; and

(d) calculate the risk-weighted amount of that portion of each of the facilities that is not the overlapping portion.

(2) Where overlapping facilities are provided by different authorized institutions, each institution shall calculate the risk-weighted amount for the maximum amount of the facility provided by it.

242. Maximum regulatory capital for originating institution

(1) Subject to subsection (2), the originating institution in a securitization transaction shall not provide regulatory capital for the securitization exposures held by the institution in the transaction in excess of the regulatory capital the institution would have been required to provide for the underlying exposures in the transaction if the underlying exposures had not been securitized.

(2) Where the originating institution has entered into a securitization transaction which is subject to an early amortization provision whereby the institution is required to provide regulatory capital for the investors' interest in the transaction, subsection (1) does not apply to the regulatory capital which the institution is required to provide for securitization exposures held by it in the transaction.

243. Treatment of underlying exposures of originating institution in synthetic securitization transactions

(1) This section applies to the calculation of the risk-weighted amount of the pool of underlying exposures by an originating institution in a synthetic securitization transaction which falls within Schedule 10.

(2) Subject to subsections (3) and (4), the originating institution in a synthetic securitization transaction shall—

- (a) subject to paragraph (b), calculate the risk-weighted amount of the institution's underlying exposures in the transaction based on the approach used by the institution to calculate its credit risk for the class of exposures into which the underlying exposures fall;
- (b) take into account the effect of any credit risk mitigation used for transferring credit risk in respect of the underlying exposures to other parties to the transaction in accordance with the credit risk mitigation requirements set out in—
 - (i) Part 4 if the institution uses the STC approach; or
 - (ii) Part 5 if the institution uses the BSC approach,in calculating the risk-weighted amount of the underlying exposures.

(3) For the purposes of calculating the risk-weighted amount of the originating institution's underlying exposures in a synthetic securitization transaction where there is a maturity mismatch between the credit protection pursuant to which credit risk is transferred under the transaction and the underlying exposures, the institution—

- (a) subject to paragraphs (b) and (c), shall apply the maturity mismatch treatment set out in section 103, with all necessary modifications;
- (b) shall—
 - (i) take the maturity of the underlying exposures as being the lesser of—
 - (A) the longest maturity of any of the underlying exposures; or
 - (B) 5 years; and

- (ii) determine the maturity of the credit protection in accordance with section 103(3) and (4); and
- (c) shall not take into account any maturity mismatch in respect of the institution's securitization exposures which are subject to deduction from its core capital and supplementary capital.

(4) Where a synthetic securitization transaction incorporates a call option (other than a clean-up call) which is capable, when exercised, of terminating the transaction and the credit protection on a specified date, the originating institution in the transaction shall treat the transaction in accordance with the treatment of maturity mismatch specified in subsection (3).

244. Treatment of investors' interest for securitization exposures of originating institution subject to early amortization provision

(1) Subject to subsections (2) and (3), the originating institution in a securitization transaction shall provide regulatory capital against the investors' interest in the transaction if—

- (a) the institution sells the underlying exposures, or transfers the credit risk of the underlying exposures, into a structure that contains an early amortization provision; and
- (b) the underlying exposures are of a revolving nature.

(2) Where a securitization transaction has a pool of underlying exposures comprising revolving exposures and non-revolving exposures, the originating institution in the transaction shall apply the relevant early amortization treatment specified in section 245 only to that portion of the pool containing the revolving exposures.

(3) The originating institution in a securitization transaction is not required to provide regulatory capital pursuant to subsection (1) in any case where—

- (a) the transaction includes a replenishment structure under which the underlying exposures which are revolving in nature are to be replenished by exposures which are non-revolving in nature and the early amortization ends the ability of the institution to add new underlying exposures;
- (b) the transaction is subject to an early amortization provision which results in the structure of the transaction being akin to a structure which is non-revolving in nature in that the credit risk in respect of the underlying exposures does not return to the institution;

- (c) investors in the securitization issues remain fully exposed to future drawings by the borrowers in respect of the underlying exposures which are revolving in nature such that the credit risk of those exposures does not return to the institution notwithstanding that an early amortization provision has been triggered; or
- (d) the early amortization provision is solely triggered by events not related to the performance of the underlying exposures which are revolving in nature or of the institution.

245. Calculation of risk-weighted amount of investors' interest for securitization exposures of originating institution subject to early amortization provision

(1) For the purposes of this section, the investors' interest for the originating institution in a securitization transaction consists of the sum of—

- (a) the investors' share of the principal amount of the drawn balances of the underlying exposures in the transaction; and
- (b) the investors' share of the credit equivalent amount of the undrawn balances of the underlying exposures in the transaction, which is the principal amount of the undrawn balances multiplied by the applicable CCF of the underlying exposures as specified in sections 71 and 73, determined by allocating the undrawn balances of the underlying exposures between the institution and the investors according to the proportion of their respective share of the drawn balances of the underlying exposures.

(2) The originating institution in a securitization transaction shall calculate the risk-weighted amount of the investors' interest in the transaction by multiplying together—

- (a) the investors' interest as determined under subsection (1);
- (b) the appropriate CCF as determined under subsections (3) and (4); and
- (c) the risk-weight which would be applicable to the underlying exposures in the transaction (or, if there is more than one class of underlying exposures, the weighted average risk-weight of all of the classes of underlying exposures) based on the approach used by the institution to calculate its credit risk for the class of exposures into which the underlying exposures would fall if they were not securitized.

(3) For the purposes of determining the CCFs to be applied to the investors' interest in a securitization transaction which is subject to a controlled early amortization provision referred to in subsection (5), an authorized institution shall—

- (a) divide the underlying exposures into committed and uncommitted credit lines;
- (b) apply a CCF of 90% to the investors' interest in respect of the underlying exposures which fall into committed credit lines;
- (c) in respect of the underlying exposures which fall into uncommitted credit lines, further divide the exposures into—
 - (i) non-retail credit lines;
 - (ii) retail credit lines;
- (d) apply a CCF of 90% to the investors' interest in respect of the underlying exposures which fall into uncommitted non-retail credit lines;
- (e) subject to paragraphs (f) and (g), apply the appropriate CCF, determined by reference to the ratio of the 3-month average excess spread of the transaction to the trapping point of excess spread set out in Schedule 12, to the investors' interest in respect of the underlying exposures which fall into uncommitted retail credit lines;
- (f) treat the trapping point of excess spread, for the purposes of paragraph (e), as that point of the accumulated excess spread at or below which the SPE in the transaction is required to retain the amount of excess spread and not pay it out to the originator in the transaction; and
- (g) in any case where the transaction does not require excess spread to be trapped, treat the trapping point as that point of the accumulated excess spread where such accumulated excess spread is equal to 4.5% of the principal amount of the underlying exposures in the transaction.

(4) For the purposes of determining the CCFs to be applied to the investors' interest in a securitization transaction which is subject to a non-controlled early amortization provision (being an early amortization provision which does not fall within subsection (5)), an authorized institution shall—

- (a) divide the underlying exposures into committed and uncommitted credit lines;
- (b) apply a CCF of 100% to the investors' interest in respect of the underlying exposures which fall into committed credit lines;
- (c) in respect of the underlying exposures which fall into uncommitted credit lines, further divide the exposures into—
 - (i) non-retail credit lines;
 - (ii) retail credit lines;

- (d) apply a CCF of 100% to the investors' interest in respect of the underlying exposures which fall into uncommitted non-retail credit lines;
 - (e) subject to paragraphs (f) and (g), apply the appropriate CCF, determined by reference to the ratio of the 3-month average excess spread of the transaction to the trapping point of excess spread set out in Schedule 13, to the investors' interest in respect of the underlying exposures which fall into uncommitted retail credit lines;
 - (f) treat the trapping point of excess spread, for the purposes of paragraph (e), as that point of the accumulated excess spread at or below which the SPE in the transaction is required to retain the amount of excess spread and not pay it out to the originator in the transaction; and
 - (g) in any case where the transaction does not require excess spread to be trapped, treat the trapping point as that point of the accumulated excess spread where such accumulated excess spread is equal to 4.5% of the principal amount of the underlying exposures in the transaction.
- (5) For the purposes of subsection (3), an early amortization provision is controlled if—
- (a) the originating institution in a securitization transaction has a plan which operates to ensure that it has sufficient capital and liquidity available for acquiring the investors' interest in the event of an early amortization in respect of the transaction;
 - (b) throughout the duration of the transaction, including the early amortization period, the same pro-rata sharing between the originating institution and investors of payments of interest, principal, expenses, losses and recoveries is applied, based on the relative share of the originating institution and the investors in the drawn balances of the underlying exposures outstanding at the beginning of each month;
 - (c) the early amortization period set by the originating institution is sufficient for at least 90% of the total debt outstanding under the underlying exposures at the beginning of that period to have been repaid, or to have been regarded by the originating institution as in default in section 149 under the IRB approach, by the end of that period; and
 - (d) the speed of repayment of amounts due to the investors by the originating institution is no more rapid than would be the case under a straight-line amortization (being the gradual paying-off of a debt in regular instalments of equal amounts) over the period referred to in paragraph (c).