



**Federal Deposit Insurance Corporation**

550 17th Street NW, Washington, D.C. 20429-9990

Division of Risk Management Supervision

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January 2, 2014

**TO:** Executive Secretary

**FROM:** Phillip E. Sloan  
Counsel, Legal Division

**SUBJECT:** Meeting with Structured Finance Industry Group (“SFIG”) and Certain Companies relating to Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Proposed Option for ABCP

Please include this memorandum in the public file on the Notice of Proposed Rulemaking relating to Credit Risk Retention (RIN 3064-AD74), 78 Fed. Reg. 57927.

On December 16, 2013, FDIC staff (Suzanne Clair, Rohit Dhruv, Tom Lyons, Rae-Ann Miller and Phil Sloan), SEC staff (Katherine Hsu, Arthur Sandel, David Beaning, Lulu Cheng, Sean Wilkoff and Igor Kozhanov), OCC staff (Jamey Basham, Joe Smith, Kevin Korzeniewski and Carter Evans) and staff of the Board of Governors of the Federal Reserve System (David Alexander and Sean Healey) participated in a meeting with representatives of SFIG (Sairah Burki), Mayer Brown (Carol Hitselberger), Citigroup (Bryan Detric and Jane Chwe), J.P. Morgan Securities (John Kuhns), Societe Generale (Jim Ahern and Helen Jones), RBC Capital Markets (Eric Wise and Roger Pellegrini), Falcon Capital Advisors (Armando Falcon), BlackRock (Mark Schnell) and Fidelity Investments (Matt Healy and Hannah Sullivan).

The discussion focused on matters relating to asset-backed commercial paper conduits.

The attached document was distributed in connection with the meeting.

# Risk Retention Re-Proposal: Application to ABCP Conduits

December 16, 2013



# Overview

- ABCP Conduit overview
- Application of Re-Proposal to ABCP arrangers
- Re-Proposal challenges
  - Liquidity support requirements
  - Asset restrictions
  - Disclosure
  - ABCP tenor
  - Compliance outside safe harbor
  - Grandfathering
- Appendix
  - Representative example of funding support
  - Application of our proposed revisions
  - Proposed text

# What do we mean by an ABCP Conduit?

- In a nutshell, it is a “conduit” between the short-term debt capital markets and Bank clients
  - ABCP Conduits finance Bank clients’ financial assets using securitization technology
    - Securitization technology turns an ordinary secured loan into a safer more bankruptcy-remote investment for the Bank or the ABCP conduit, as applicable
  - Banks also finance clients’ financial assets using securitization technology directly
    - Whether ABCP Conduits or Bank financings, the Bank clients are predominantly clients that are critical to the real economy (such as manufacturers, auto companies, and other industrials)
  - ABCP Conduit transactions are underwritten by Banks and indistinguishable in form and credit from similar transactions funded directly by Banks
- All Bank sponsored conduits provide coverage for ALL outstanding ABCP (whether in the form of a fully supported liquidity facility or a partially supported liquidity facility, together with program-wide credit enhancement equal to at least 5% of the ABCP Conduit’s assets)
- ABCP Conduits typically have simple capital structures, specifically, nominal equity and pari passu ABCP

# Illustrative Multi-Seller ABCP Conduit Overview

**Step 1:** XYZ Company (“XYZ”) originates \$100million of trade receivables in the ordinary course of its business

**Step 2:** XYZ transfers \$100MM receivables to a bankruptcy-remote special purpose vehicle (“XYZ SPV”)

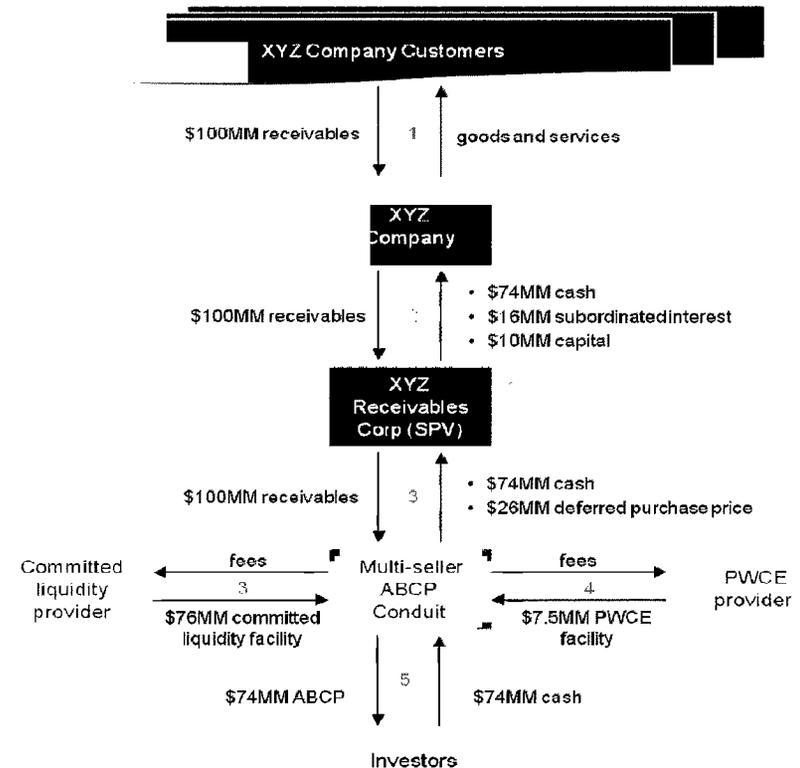
- The receivables transfers are typically arranged as ‘true sales’ at law
- XYZ receives
  - \$74MM of cash (financing from the ABCP conduit)
  - \$10MM capital investment in wholly owned subsidiary
  - \$16MM subordinated interest

**Step 3:** XYZ SPV transfers \$100MM of receivables to a Multi-seller ABCP Conduit (“ABCP Conduit”) administered by a Bank administrator in exchange for \$74MM cash and \$26MM deferred purchase price (which is non-recourse to ABCP Conduit and provides credit enhancement to ABCP Conduit’s cash investment)

- Each transaction funded by the ABCP Conduit is generally supported by a committed transaction-specific liquidity facility (‘CTLF’) provided by a regulated liquidity provider
  - The CTLF provides contingent funding in the event that the ABCP Conduit is:
    - Unable to roll-over maturing ABCP
    - An event occurs (a liquidity event) that obligates the ABCP Conduit to make a draw on the CTLF

**Step 4:** the Bank sponsor provides a program-wide credit enhancement facility in an amount at least equal to 5% of the ABCP Conduit’s assets

**Step 5:** ABCP Conduit issues ABCP in its own name to finance the purchase of the senior transaction interest and continually rolls commercial paper throughout the life of the securitization transactions that are being funded



## Observations:

1. The securitization transaction in steps 2 and 3 would not meet the requirements for the types of assets that an eligible ABCP conduit could purchase
2. There is liquidity support  $\geq 100\%$  of outstanding ABCP and unconditional credit support  $\geq 5\%$  of the ABCP Conduit’s assets that oftentimes represents a multiple of any single transaction funded by the ABCP Conduit
3. All committed facilities (CTLF and PWCE) must have maturity dates that occur after the longest dated ABCP

# What we do NOT mean by an ABCP Conduit

- An SIV (Structured Investment Vehicle) is not an ABCP Conduit
  - SIVs no longer fund in the ABCP market
  - SIVs were aggregators of securities (typically CDOs, corporate bonds, RMBS and ABS) in secondary market
  - SIVs invested at the discretion of an investment manager
  - The investment manager and equity investors in a SIV intended to make money through market value gains in the SIV's portfolio
  - The capital structure of SIVs was complicated and multilayered with ABCP comprising only a portion of the senior most capital layer
  - Bank provided liquidity support for a SIV covered only a fraction (typically 10-20%) of the outstanding ABCP
  - No Bank provided credit support was in place to support SIV ABCP

# Application of Re-Proposal to ABCP Arrangers

- The risk retention requirement applies to the “**sponsor**” of a securitization. This term is defined to include any person who “organizes and initiates a securitization transaction by **selling or transferring assets...** to the issuing entity”
- Banks or non-bank arrangers (“**arrangers**”) who organize and administer ABCP conduits, but who don’t themselves transfer any assets to the ABCP conduits, do not fall within the definition of “sponsor”\*
- However, the Agencies appear to intend to impose the Re-Proposal’s risk retention requirements on arrangers of ABCP conduits
- Assuming that ABCP arrangers are subject to the risk retention requirement, they have 2 options for compliance:
  - 1) Retain credit risk in the form of a **Standard Risk Retention**; or
  - 2) Invoke **Safe Harbor** for Eligible ABCP conduits (which eliminates need for arranger to retain risk)

*\* If a non-bank arranger organizes an ABCP conduit, Banks still refer their own Bank-underwritten client transactions to be funded by the conduit and provide 100% liquidity support for the ABCP that funds its client transactions. Throughout these slides, we include as Bank “sponsors” any Bank that accesses such an ABCP Conduit arranged by a non-bank.*

# What are the challenges presented by the Re-Proposal?

## The Safe Harbor:

- 100% fully supported, unconditional liquidity coverage is not market standard and unnecessarily penalizes Bank sponsors relative to other risk retainers
- There should be no limit on the number of liquidity providers for a safe harbored ABCP Conduit, so long as the Bank “sponsor” maintains unconditional credit support\* equal to at least 5% of such ABCP Conduit’s assets
- The tenor limit for ABCP is too short
- ABCP Conduits engage in more business than narrowly investing in asset-backed securities (*e.g.*, loans)
- Given 100% Bank liquidity coverage and unconditional Bank credit support equal to at least 5% of the ABCP Conduit’s assets, the focus should be on the Bank’s (rather than the originator-sellers’) compliance with the risk retention requirements

*\* Throughout these slides, references to unconditional support mean that there are no conditions to the Bank funding other than delivery of a funding request and that the issuer is not party to an actual bankruptcy proceeding.*

# What are the challenges presented by the Re-Proposal? (cont.)

## **Compliance outside the Safe Harbor:**

- Although Banks can acquire 5% of the ABCP Conduit's assets (vertical retention), why force Banks to do so when they already have coverage for all outstanding ABCP and unconditional credit support equal to at least 5% of such ABCP Conduit's assets?
- Banks should be able to satisfy risk retention for an ABCP Conduit on an unfunded basis

## **Grandfathering Mechanics are inadequate to deal with ABCP Conduit logistics**

# The ABCP Safe Harbor

**ABCP Conduits provide coverage for all outstanding ABCP through various types of support, but a significant portion of ABCP Conduits would not meet the 100% fully supported liquidity coverage requirement.**

## Types of ABCP Conduit Support

1. Backstop liquidity
  - Banks provide this in a contractual amount at least equal to the face amount of all ABCP outstanding
  - It covers timely payment of ABCP principal and discount when due if funds are not available at ABCP maturity (which is fundamentally different from a monoline bond insurance policy)
2. Partially supported liquidity
  - A subset of backstop liquidity that includes a funding formula that can be reduced by the amount of non-performing assets that exceed client-provided first loss protection
  - Client deals are Bank underwritten to at least investment grade so likelihood of any actual funding formula reduction is extremely remote

# The ABCP Safe Harbor (cont.)

3. Fully supported liquidity
  - A subset of backstop liquidity that does not include a funding formula
  - The full amount of the facility is always (i) available in the amount of outstanding ABCP Conduit investments (which amount equals all ABCP) and (ii) unconditional
4. Program Wide Credit Enhancement (PWCE)
  - Bank provides credit support that is unconditional in an amount at least equal to 5% of the ABCP Conduit's assets (which may be included in liquidity if such liquidity is fully supported liquidity)
  - Unlike surety bonds that pay only after evidence of an actual loss, PWCE is available on a same day basis when needed to pay ABCP
  - Can be in the form of fully supported liquidity

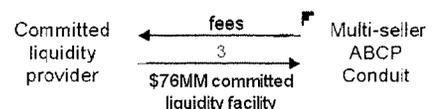
# Illustrative multi-seller ABCP Conduit overview: the role and obligations of the liquidity providers providing partial support

**Funding obligations:** Regulated liquidity providers that provide committed liquidity support (with respect to partially supported liquidity facilities) are typically obligated to provide funding in two general categories of scenarios:

- **ABCP funding disruption event:** in the event that the ABCP Conduit is unable to roll-over commercial paper, the regulated liquidity provider is obligated to provide alternative financing, subject to the ABCP Conduit not being in bankruptcy (note: such entity is structured as bankruptcy remote);
- **Predetermined funding event:** Oftentimes, there are established events that obligate the ABCP Conduit to fund with Bank liquidity versus ABCP. These events are sometimes defined by the performance of the underlying collateral pool (e.g. 25% of the original transaction credit enhancement level is consumed)

**Risk obligations:** When an ABCP funding disruption event or predetermined funding event occurs, regulated liquidity providers are generally required to fund against performing receivables (e.g. non-defaulted receivables). Regulated liquidity providers sometimes build in an additional collateral cushion at the time of funding (in these scenarios, the collateral cushions may reduce the amount of required Bank funding)

- At the time of a funding event, the amount of funding required by the regulated liquidity provider is calculated based on the underlying collateral (the trade receivable portfolio in this example) and is often times referred to as the 'funding formula'
- Each CTLF will typically employ a 'funding formula' tailored to the specific transaction, but the general framework for 'funding formulas' is as follows:
  - Regulated liquidity providers are obligated to provide the lesser of (A) and (B), where
    - (A) = the ABCP Conduit's investment (which equals the face amount of related commercial paper)
    - (B) = eligible receivables balance\*\*



**\*\* Interaction between CTLF and program-wide credit enhancement:**

In the event that provision (B) results in a funding shortfall where the amounts received from the regulated liquidity provider are less than the face amount of maturing ABCP, the CTLF still funds the maximum amount permitted minus the funding formula shortfall, and the program wide credit enhancement makes up the shortfall (see the following pages for greater detail on the interaction of program wide credit enhancement and committed liquidity)

# Illustrative multi-seller ABCP Conduit overview: the role and obligations of the liquidity providers providing full support

**Funding obligations:** Regulated liquidity providers that provide committed liquidity support are typically obligated to provide funding in two general categories of scenarios:

- *ABCP funding disruption event:* in the event that the ABCP Conduit is unable to roll-over commercial paper, the regulated liquidity provider is obligated to provide alternative financing
- *Predetermined funding event:* Oftentimes, there are established events that obligate the ABCP Conduit to fund with Bank liquidity versus ABCP
- These events are sometimes defined by the performance of the underlying collateral pool (e.g. 25% of the original credit enhancement level is consumed)

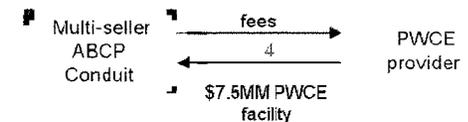
**Risk obligations:** When an ABCP funding disruption event or predetermined funding event occurs, regulated liquidity providers are required to fund an amount equal to the ABCP Conduit's investment (which equals the face amount of related commercial paper)



**Observation:**  
 The funding and risk obligations of the liquidity provider and program wide credit enhancement provider are the same

# The PWCE facility obligates its provider to assume an even greater amount of tail risk than would be required in the base risk retention framework

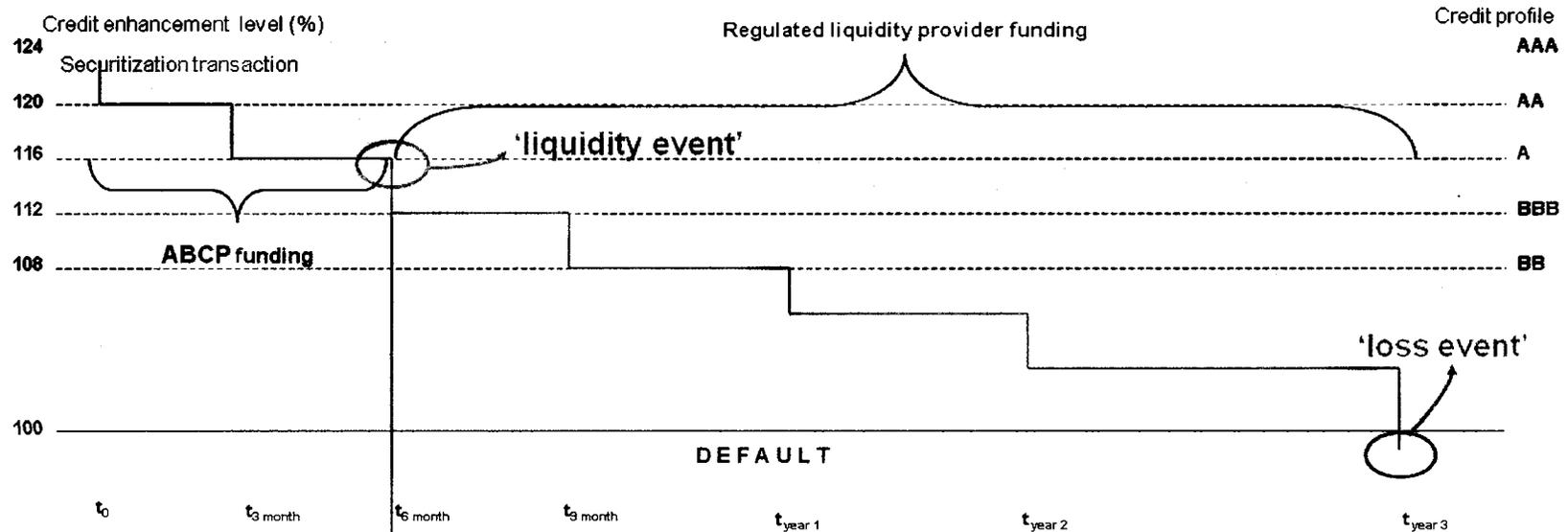
- ABCP Conduits generally secure a program-wide credit enhancement (“PWCE”) facility in an amount at least equal to 5% of the ABCP Conduit’s assets
  - the PWCE facility is almost always provided by the same Bank that provides all or virtually all of the CTLF
  - The PWCE facility is unconditional and has no funding formula
  - The PWCE facility is generally classified as a direct credit substitute for regulatory capital purposes
- The PWCE facility is generally maintained at a level that is equal to the greater of (C) and (D), where:
  - (C) = [5]% of the ABCP Conduit’s assets; and
  - (D) = a floor amount generally equal to at least \$100MM
- By design, the PWCE is in place to cover any funding shortfall that may arise due to the operation of the funding formulas found in the CTLFs
  - More specifically, the PWCE would fund against defaulted receivables to the extent necessary
- The PWCE is fungible across all securitization transactions financed by the ABCP Conduit
  - As a result, the provider of this facility is in a subordinated position relative to the ABCP investors and the CTLF providers



## Observation:

Because of the operation of provisions (C) and (D), the PWCE facility is often times large enough to cover  $\geq 100\%$  of the risk associated with multiple transactions funded by the ABCP Conduit

The CTLF and PWCE facility mechanics convey substantial risk exposure to the regulated liquidity providers through the entire life of the securitization transaction



- Upon the occurrence of an event requiring a draw on liquidity, the regulated liquidity provider advances funds to the ABCP Conduit
- Funds received from the regulated liquidity provider are used to pay related ABCP
- The applicable transaction now secures the regulated liquidity provider's advance and no longer secures outstanding ABCP
  - The ABCP holders have no exposure to loss associated with the liquidity funded transaction from this point forward
- The regulated liquidity provider's exposure to future losses continues until transaction maturity

# Our Proposal

- One or more regulated liquidity providers must provide some form of backstop liquidity covering 100% of the face amount of all ABCP and
- The Bank sponsor must provide PWCE (unconditional credit support, which may include fully supported liquidity) at least equal to 5% of the ABCP Conduit's assets

# Arguments in Support of Our Proposal

- Many ABCP Conduits utilize partially supported liquidity but always have PWCE equal to at least 5% of the ABCP Conduit's assets
- Section 941 of Dodd-Frank does not preclude unfunded but committed risk retention
- Bank regulators view unfunded commitments as the equivalent of funded exposure for regulatory capital purposes
- Liquidity coverage ratio requirements impose unencumbered cash collateral requirements for a large portion of unfunded liquidity commitments, whether partially supported or fully supported
- Throughout the credit crisis no Bank ever failed to fund under a liquidity facility when required
- Forcing Banks to provide 100% liquidity in the form of credit enhancement converts their 5% retention requirement to 100%
- No reason to limit backstop liquidity provider to be the Bank sponsor so long as Bank sponsor provides unconditional credit support equal to at least 5% of the ABCP Conduit's assets
- SEC proposed changes to 2a-7 diversification requirements would treat ABCP sponsors as guarantors

## ABCP Conduits engage in a broad array of financings involving assets other than ABS

- As a mere “conduit” for short term capital markets access for its real economy clients, an ABCP Conduit can include all varieties of secured and other asset-backed client financings
- Some may not be ABS or even securitizations
- Some may be acquired by other ABCP Conduits or Banks as part of an ordinary syndication
- Some may not include intermediate SPVs and, if they do, the intermediate SPV could be an “orphan”
- However, in all cases, the ABCP’s Conduit’s business mirrors that of its Bank sponsor using the same underwriting and credit approval procedures, and the liquidity providers’ funding and risk obligations do not change

# Our Proposal

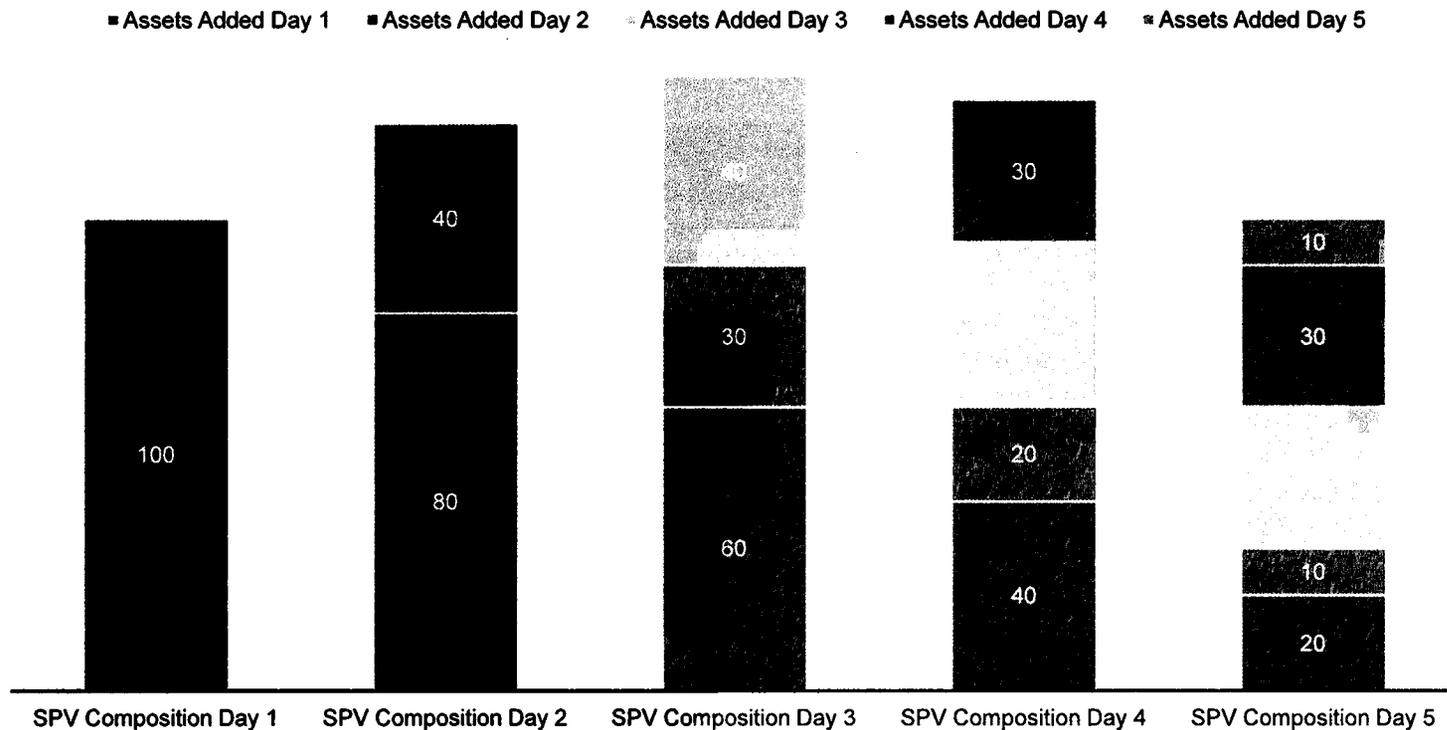
- If an ABCP Conduit benefits from coverage for all outstanding ABCP via Bank-provided liquidity support and Bank-provided PWCE equal to at least 5% of such ABCP Conduit's assets (unconditional credit support, which may be fully supported liquidity), the ABCP Conduit's assets should not be restricted (except with respect to aggregators of secondary market positions)
- At the very least, they should be permitted to be at least as broad as the Bank's own secured and asset-backed financing activities for its clients

## Some of the disclosure requirements are burdensome and provide no investor benefit

- Bank sponsors already provide investors with names of liquidity and PWCE providers, number of liquidity draws, types of financial assets and customers financed
- Disclosure of originator-seller compliance or non-compliance with Re-Proposal is unnecessary
  - The focus of the ABCP safe harbor is on Bank's retention vis-à-vis ABCP investors
  - Each originator-seller has an independent obligation to comply with its own risk retention requirements, if applicable, irrespective of the ABCP safe harbor
- Bank sponsors do not provide fair value calculations and cannot do so given dynamic nature of an ABCP Conduit's assets and liabilities

# Challenges to calculating fair value for revolving transactions

## Example of asset turnover in a trade receivables



In revolving deals fair value is challenging to calculate. For example in a trade receivables transaction, account receivables are collected every day, extinguishing those assets, and created every day, as sales occur and the newly created account receivables are sold into the SPV. The day after a fair value determination is made, it is not longer strictly accurate.

# Our Proposal

- Bank Sponsors will provide ABCP investors with periodic reporting that includes the information set forth on the next page
- If Bank sponsor's ability to rely on ABCP safe harbor hinges on customer compliance, Bank needs a reasonable time to facilitate cure with client or to remove the transaction from the ABCP Conduit

**ABCP Risk Retention Option Disclosure Proposal**

Section and Description of Proposed Disclosure	Currently Report	Could Report if Required	Issues with Reporting	Comments
<b>§_6(d) Periodic Disclosures to Investors</b>				
<b>(1) Liquidity</b>				
-Name of regulated liquidity provider	X			
-Form of organization of regulated liquidity provider		X		
-Description of form of liquidity coverage		X		
-Amount of liquidity coverage	X			
-Nature of liquidity coverage	X			
-Notice of failure to fund	X			
<b>(2) Deal Specific</b>				
(A) Asset Class	X			
(B) SIC Code		X		
(C) Description of the form of risk retention		X		
(C) Fair value			X	Reporting of fair values of underlying ABS would be extremely difficult if not impossible
(C) Nature of interest		X		
<b>§_6(e) Additional Disclosures to Regulators</b>				
-Name of organization of each originator/seller or majority owned OS affiliate that will retain		X		
-Form of organization of each originator/seller or majority owned OS affiliate that will retain		X		
<b>§_6(f)(2)(ii)(A) Notification of holders of ABCP in Case of Non-Compliance</b>				
<b>(1) If originator-seller fails to retain risk</b>				
- Name of each originator/seller that fails to retain risk			X	§_6(f)(2)(ii)(A) notification obligations must be subject to a sponsor's actual knowledge standard Identification of originators/sellers that breach risk retention would pose confidentiality/privacy issues
- Form of organization of each originator/seller		X		
- Amount of related asset backed securities held by conduit		X		
<b>(2) If originator-seller or majority-owned OS affiliate hedges risk retention (violation)</b>				
- Name of each originator/seller or majority owned OS affiliate that hedged its risk retention			X	§_6(f)(2)(ii)(A) notification obligations must be subject to a sponsor's actual knowledge standard Identification of originators/sellers that breach risk retention would pose confidentiality/privacy issues
- Form of organization of each originator/seller or majority owned OS affiliate that hedged its risk retention		X		
- Amount of related asset backed securities held by conduit		X		
(3) Any remedial actions taken by the ABCP Conduit sponsor or other party		X		

## There should be no limit on ABCP tenor

- Historical study of ABCP tenor predates impact of liquidity coverage ratio and net stable funding ratio
- Sponsors need flexibility in the face of these new regulations and others that may follow close behind
- So long as Banks provide liquidity coverage for 100% of outstanding ABCP, and the Bank sponsor provides at least credit support equal to at least 5% of the ABCP Conduit's assets (which may be included in liquidity if such liquidity is fully supported liquidity), why is tenor of ABCP relevant to risk retained by Bank sponsor?

# Compliance Outside the Safe Harbor

## Our Proposal:

Banks should be able to satisfy risk retention for an ABCP Conduit “sponsored” by it on an unfunded basis

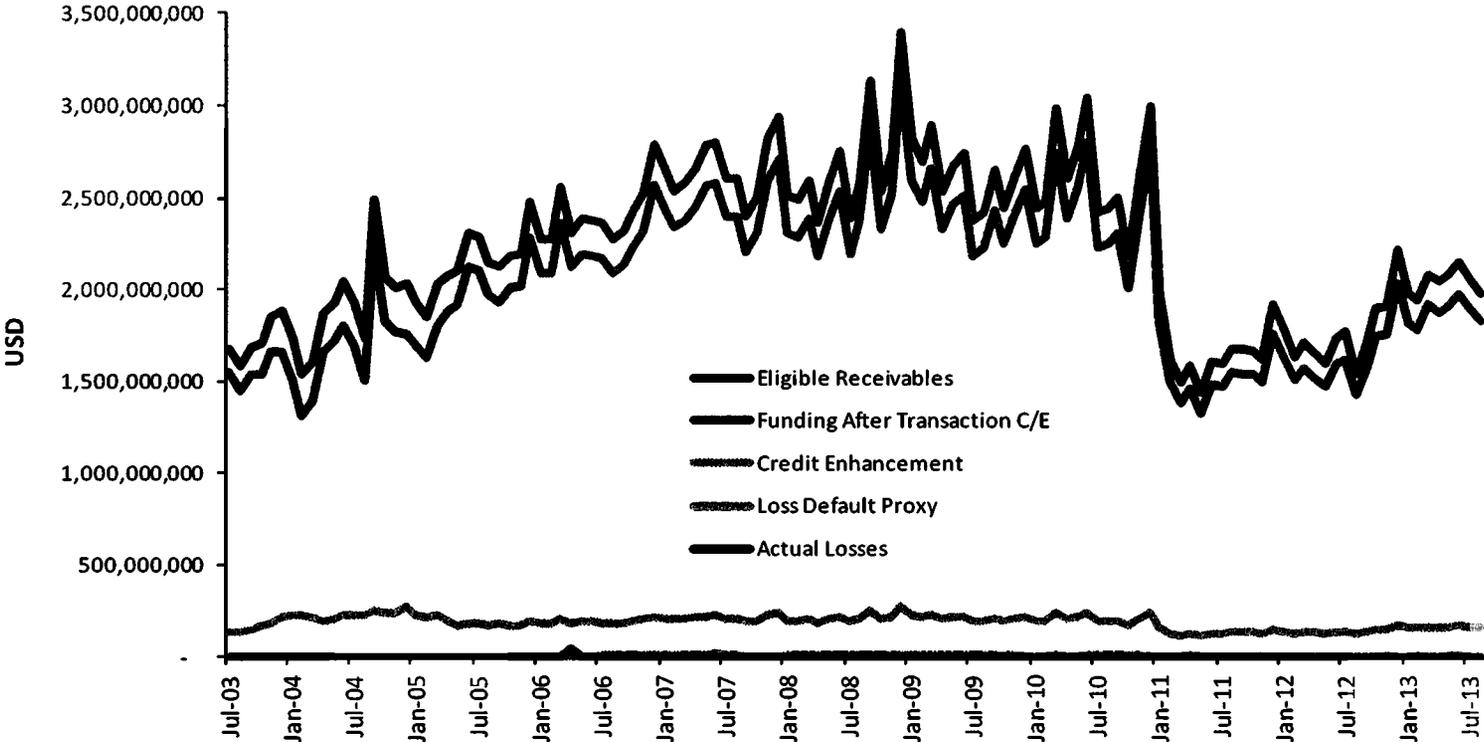
- Bank regulators require Banks to hold capital against these unfunded commitments in the same amount as funded exposures
- Bank commitments to ABCP Conduits are required to be irrevocable, unconditional and available on a same day basis to fund ABCP when due
  - This is dramatically different from surety bonds
  - Surety bonds did not fund until all financial assets had liquidated and the amount of losses had crystallized
  - When surety bonds had been used to provide credit support for any ABCP program, a separate Bank liquidity facility was required to front for such bond as a result of the funding delay

# Grandfathering Mechanics

- ABCP Conduits have commitments and provide customer financing for years at a time
- They have no contractual right to alter the terms of the deal during the life of the commitment
- Main street customers turn to ABCP Conduits for such committed funding that is not available in the term markets
- **Our Proposal:** ABCP Conduit can still meet safe harbor if Bank client transactions are not in compliance with Re-Proposal until renewal or extension of such transaction

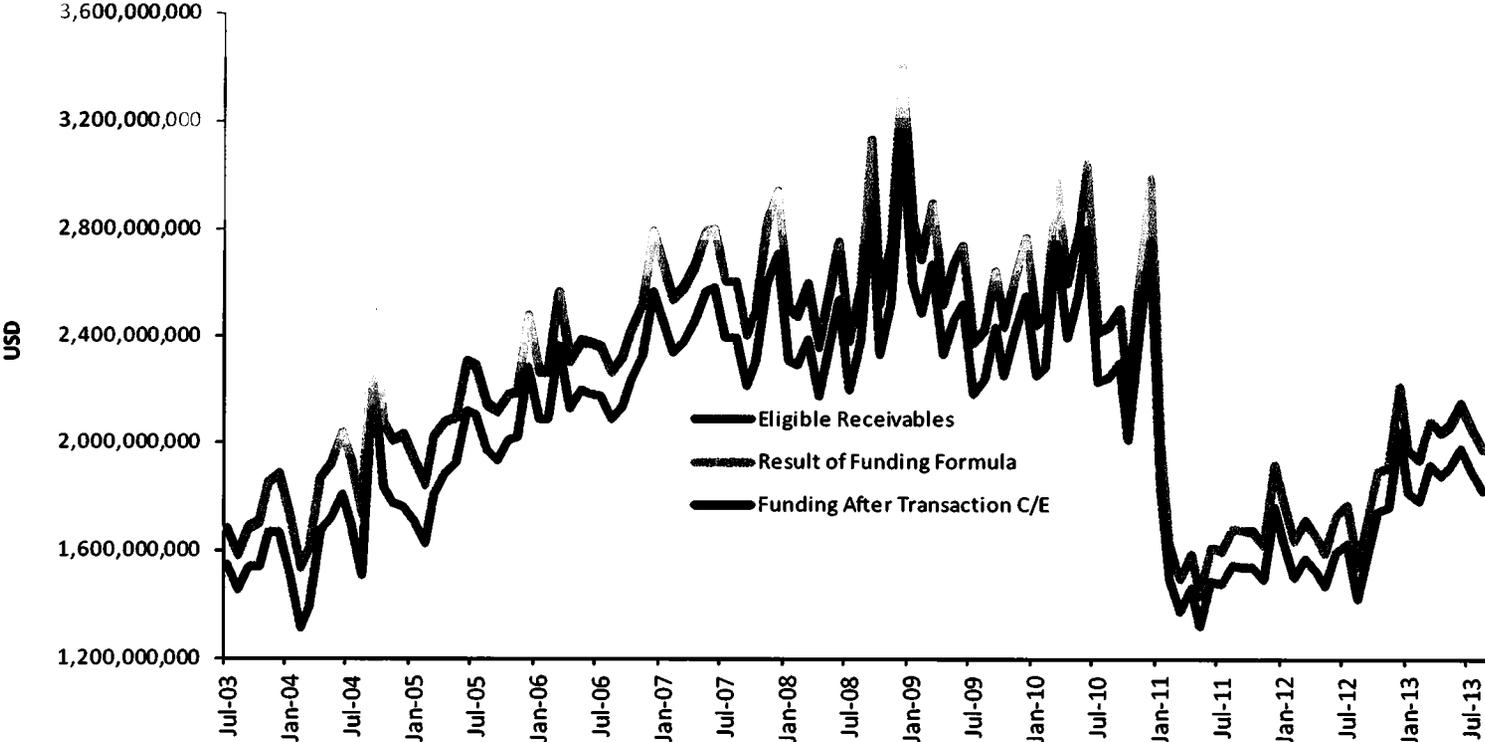
# Multi-seller ABCP Conduit – representative trade receivable securitization

Sample Trade Receivables Securitization



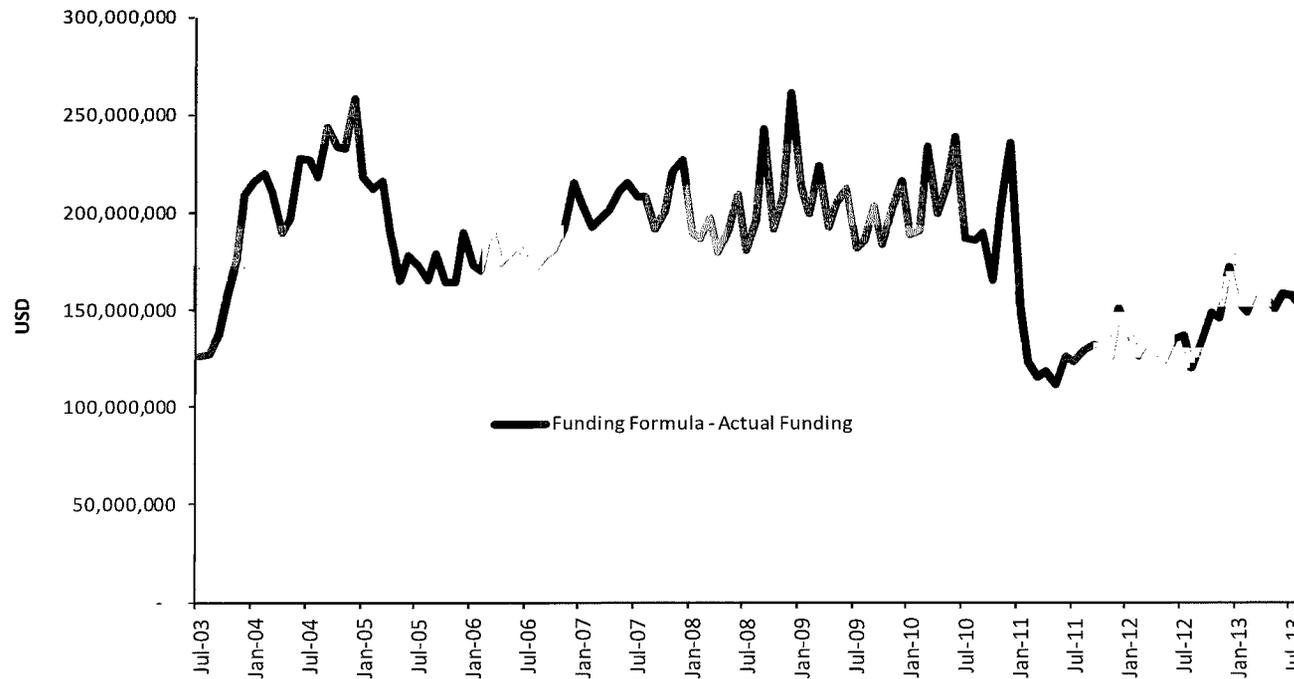
# Multi-seller ABCP Conduit – ‘funding formula’ application

Sample Trade Receivables Securitization



# Multi-seller ABCP Conduit – excess funding protection

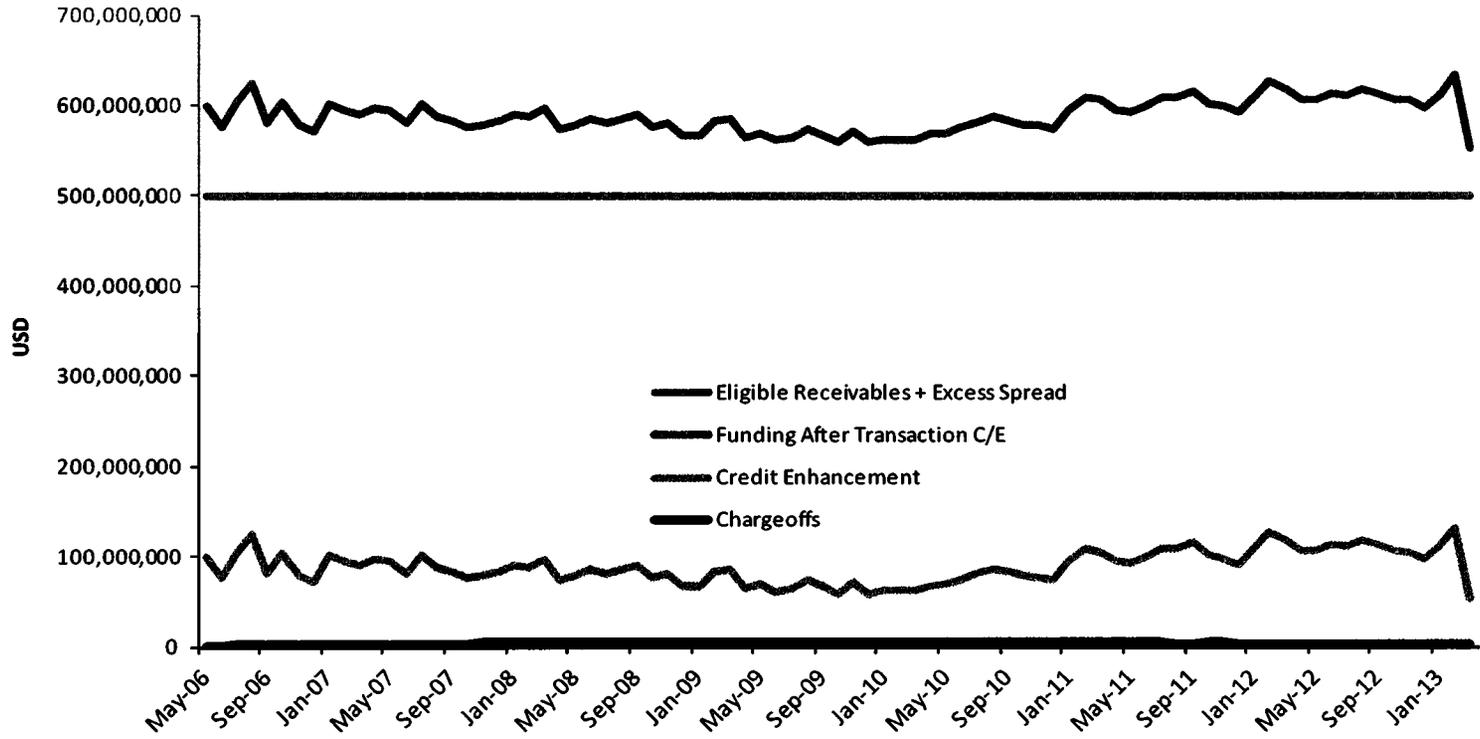
Liquidity Funding Obligation is the Lesser of Funding Formula and Actual Funding



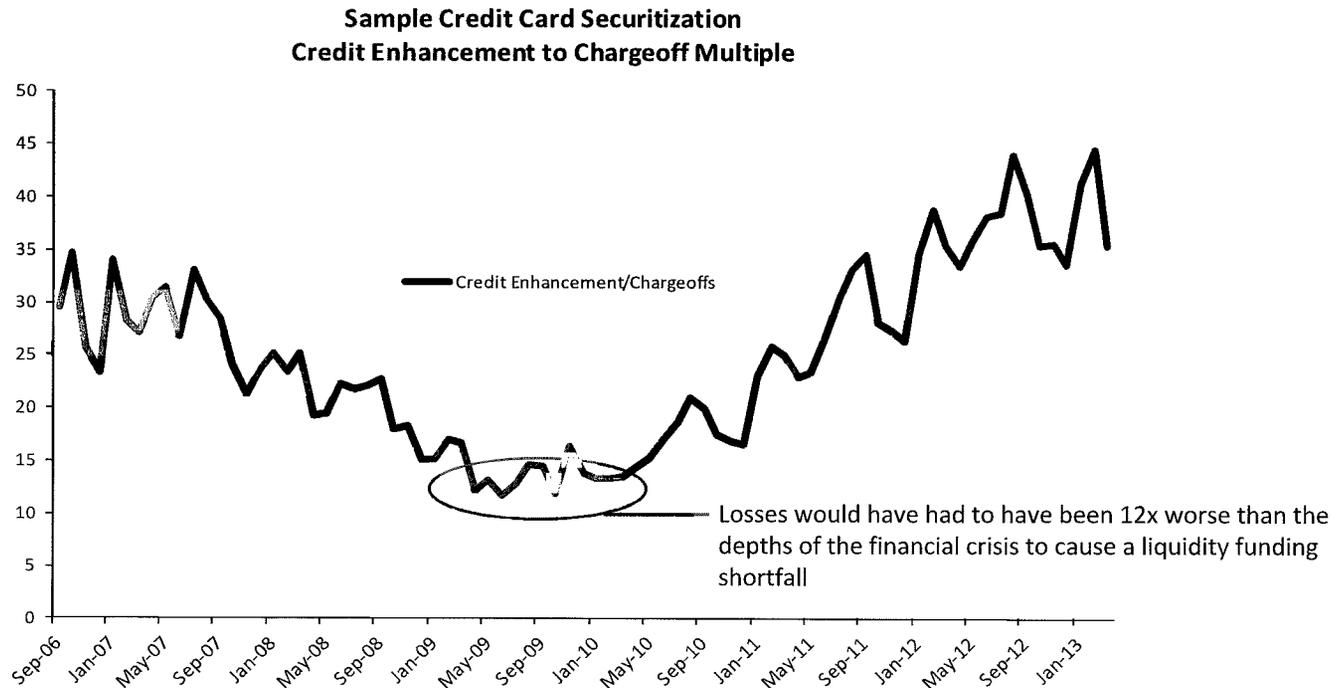
- Losses would have had to have been 12x worse than the depths of the financial crisis to cause a liquidity funding shortfall
- There would still have been the full 5% program-wide credit enhancement to absorb losses before the CP holders would have suffered any shortfall at all

# Multi-seller ABCP Conduit – representative credit card securitization

Sample Credit Card Securitization



# Multi-seller ABCP Conduit – ‘funding formula’ application



- The above graph displays the ratio of credit enhancement to charge-offs
  - Defines how much worse charge-offs would have had to have gotten in order for the funding formula to result in funding less than 100% of the face amount of CP
  - **There would still have been the full 5% program-wide credit enhancement to absorb losses before the CP holders would have suffered any shortfall at all**
  - The minimum value in the graph is 12, which occurs in the 2009 data

# Risk retention Re-Proposal applied to Multi-seller ABCP Conduits as currently operated

## Eligibility condition

### General

The sponsor satisfies its base risk retention requirement if each originator-seller ("O-S") that transfers assets to collateralize the ABCP issued by the conduit retains the same amount and type of credit risk as would be required as if the originator-seller was the sponsor of the intermediate SPV.

### Originator-seller requirements

Both an originator-seller and a majority-owned OS affiliate could sell or transfer assets that these entities have originated to an intermediate SPV. Intermediate SPVs could not acquire assets directly from non-affiliates.

### Intermediate SPV requirements

The intermediate SPV would be permitted to acquire assets originated by the originator-seller or its majority-controlled OS affiliate from the originator-seller or majority-controlled OS affiliate, or it could also acquire assets or asset-backed securities from another controlled intermediate SPV collateralized solely by securitized assets originated by the originator-seller or its majority-controlled OS affiliate and servicing assets.

Intermediate SPVs in structures with multiple intermediate SPVs that do not issue asset-backed securities collateralized solely by ABS interests must be pass-through entities that either transfer assets to other SPVs in anticipation of securitization (e.g., a depositor) or transfer ABS interests to the ABCP conduit or another intermediate SPV.

All ABS interests held by an eligible ABCP conduit must be issued in a securitization transaction sponsored by an originator-seller and supported by securitized assets originated or created by an originator-seller or one or more majority-owned OS affiliates of the originator-seller.

Intermediate SPVs can sell asset-backed securities that it issues to third parties other than ABCP conduits.

### Eligible collateral

A conduit could acquire any of the following types of assets: (1) ABS interests supported by securitized assets originated by an originator-seller or one or more majority-controlled OS affiliates of the originator seller, and by servicing assets; (2) special units of beneficial interest or similar interests in a trust or special purpose vehicle that retains legal title to leased property underlying leases that were transferred to an intermediate SPV in connection with a securitization collateralized solely by such leases originated by an originator-seller or majority-controlled OS affiliate and by servicing assets; and (3) interests in a revolving master trust collateralized solely by assets originated by an originator-seller or majority-controlled OS affiliate; and by servicing

ABS interests acquired by the conduit could not be collateralized by securitized assets otherwise purchased or acquired by the intermediate SPV's originator-seller, majority-controlled OS affiliate, or by the intermediate SPV from unaffiliated originators or sellers.

The ABS interests also would have to be acquired by the ABCP conduit in an initial issuance by or on behalf of an intermediate SPV, (1) directly from the intermediate SPV, (2) from an underwriter of the securities issued by the intermediate SPV, or (3) from another person who acquired the securities directly from the intermediate SPV.

### Risk retention options

with respect to each asset-backed security the ABCP conduit acquires from an intermediate SPV, the originator-seller or majority-controlled OS affiliate held risk retention in the same form, amount, and manner as would be required using the standard risk retention or revolving asset master trust options.

### Liquidity facility obligations

The proposal requires that a regulated liquidity provider must have entered into a legally binding commitment to provide 100 percent liquidity coverage (in the form of a lending facility, an asset purchase agreement, a repurchase agreement, or similar arrangement) of all the ABCP issued by the issuing entity by lending to, or purchasing assets from, the issuing entity in the event that funds are required to repay maturing ABCP issued by the issuing entity. Amounts due pursuant to the required liquidity coverage may not be subject to credit performance of the ABS held by the ABCP conduit or reduced by the amount of credit support provided to the ABCP conduit.

	Multi-seller ABCP Conduit	Single-seller ABCP Conduit	Arbitrage ABCP Conduit	Structured Investment Vehicle (SIV)
General	PASS/FAIL	PASS	FAIL	FAIL
Originator-seller requirements	PASS/FAIL	PASS	FAIL	FAIL
Intermediate SPV requirements	PASS/FAIL	PASS	FAIL	FAIL
Intermediate SPVs in structures with multiple intermediate SPVs	PASS/FAIL	PASS	FAIL	FAIL
All ABS interests held by an eligible ABCP conduit	PASS/FAIL	PASS	FAIL	FAIL
Intermediate SPVs can sell asset-backed securities	PASS	PASS	FAIL	FAIL
Eligible collateral	PASS/FAIL	PASS	FAIL	FAIL
ABS interests acquired by the conduit	PASS/FAIL	FAIL	FAIL	FAIL
The ABS interests also would have to be acquired	PASS/FAIL	PASS	FAIL	FAIL
Risk retention options	PASS/FAIL	FAIL	FAIL	FAIL
Liquidity facility obligations	FAIL	FAIL	FAIL	FAIL

# Risk retention Re-Proposal with SFIG member recommendations applied to Multi-seller ABCP Conduits as currently operated

Eligibility condition	Multi-seller ABCP Conduit	Single-seller ABCP Conduit*	Arbitrage ABCP Conduit	Structured Investment Vehicle (SIV)
<p><b>Eligible transactions</b> Must be limited to assets that are underwritten by the bank sponsor using the same procedures that the bank uses for similar transactions originated for its own account and not obtained in a secondary market transaction (except in an ordinary bank and conduit market syndication)</p>	PASS	FAIL	FAIL	FAIL
<p><b>Liquidity facility obligations</b> So long as (i) one or more regulated liquidity providers provide backstop liquidity (which may be full or partial support liquidity) in the aggregate equal to 100% of all outstanding commercial paper, and (ii) the bank sponsor provides credit enhancement (which may be through a full support liquidity facility) equal to at least 5% of all outstanding commercial paper, the requirement in clause (4) of the definition of "eligible ABCP conduit" is satisfied</p>	PASS	FAIL	FAIL	FAIL

*\*Single-seller ABCP Conduits can comply with risk retention requirements based on other provisions*

# Proposed Text

## SUBPART B—CREDIT RISK RETENTION

### § .6 Eligible ABCP conduits.

(a) Definitions. For purposes of this section, the following additional definitions apply:

5 percent credit enhancement means credit enhancement provided to an ABCP conduit sized to cover at least 5% of the amount invested by such ABCP conduit under all customer transactions without regard to the credit risk or other performance of such customer transactions.

100 percent non-asset tested liquidity coverage means liquidity coverage (in the form of a lending facility, an asset purchase agreement, a repurchase agreement, or other similar arrangement) provided with respect to all the ABCP issued by an ABCP conduit by lending to, purchasing ABCP issued by, or purchasing assets from, such ABCP conduit in order to provide for the timely repayment of maturing ABCP issued by such ABCP conduit, sized to cover at least equal to the outstanding balance of all ABCP issued by such ABCP conduit without regard to the credit risk or other performance of the customer transactions entered into by such ABCP conduit and without regard to any credit enhancement.

100 percent asset tested liquidity coverage means liquidity coverage (in the form of a lending facility, an asset purchase agreement, a repurchase agreement, or other similar arrangement) provided with respect to all the ABCP issued by an ABCP conduit by lending to, purchasing ABCP issued by, or purchasing assets from, such ABCP conduit in order to provide for the timely repayment of maturing ABCP issued by such ABCP conduit, sized to cover at least the outstanding balance of all ABCP issued by such ABCP conduit, as such amount may be reduced by non-performing assets included in the ABCP conduit's customer transactions.

ABCP means asset-backed commercial paper that has a maturity at the time of issuance not exceeding 397 days, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

ABCP conduit means an issuing entity with respect to ABCP.

Bank sponsor means, with respect to any customer transaction entered into by an ABCP conduit, the regulated liquidity provider that underwrites and approves such customer transaction.

Customer transaction means a loan, note or other security investment, purchase or other form of financing transaction entered into by an ABCP conduit for the benefit of an originator-seller, the repayment of which relies on cash flows from loans, repurchase agreements or other financial assets or security or other interests therein, in each case that meets each of the following criteria:

- (1) Such transaction is underwritten by the related bank sponsor using the same procedures that such bank sponsor uses for similar transactions that are originated by the bank sponsor for its own account; and
- (2) Such transaction is originated by the ABCP conduit directly or by a financial institution that satisfies the requirements of a regulated liquidity provider or another ABCP conduit; and
- (3) If any such transaction (other than a pre-existing transaction) involves the issuance or transfer of an asset-backed security, the sponsor of the securitization transaction that created such asset-backed security certifies to the bank sponsor that it satisfies the risk retention requirements of this part (whether through complying with the base risk retention requirement of § \_\_\_\_.3 or by falling within any of the exemptions provided in this part), and agrees to provide re-certifications to the bank sponsor periodically in accordance with the documents governing the customer transaction pursuant to which the ABCP conduit acquired such asset-backed security; and
- (4) If any such transaction (other than a pre-existing transaction) does not involve the issuance or transfer of an asset-backed security, (a) the originator-seller warrants to the bank sponsor that it will retain on an ongoing basis (subject to the hedging and other restrictions in § \_\_\_\_.12 of this part), a material net economic interest in the underlying financial assets, which shall not be less than 5% of the nominal value of such underlying financial assets, (b) the ABCP conduit is not required to provide funding under such customer transaction at any time in excess of 95% of the nominal value of the underlying financial assets that meet the eligibility criteria for such funding (which criteria shall, in any event, exclude defaulted financial assets), and (c) the bank sponsor underwrites the customer transaction to the equivalent of at least investment grade (as defined in 12 CFR 324.2);

together with related rights, including collateral therefor and servicing assets, provided that customer transactions shall not include synthetic securitizations.

Eligible ABCP conduit means an ABCP conduit, provided that:

- (1) The ABCP conduit is bankruptcy remote and otherwise isolated for insolvency purposes from the related bank sponsor, any originator-seller or intermediate SPV party to any customer transaction with such ABCP conduit;
- (2) The ABCP conduit's investments are limited to customer transactions and short term cash equivalent investments;
- (3) (a) One or more regulated liquidity providers have entered into one or more legally binding commitments to provide 100 percent non-asset tested liquidity coverage in the aggregate, or (b) (i) one or more regulated liquidity providers have entered into one or more legally binding commitments to provide 100 percent asset tested liquidity coverage in the aggregate, and (ii) the bank sponsor has entered into a legally binding commitment to provide at least 5 percent credit enhancement (which, for the avoidance of doubt, may be provided as part of any 100 percent non-asset tested liquidity coverage); and
- (4) The ABCP conduit does not issue any securities (other than its nominal equity and a single class of ABCP, all payable at the same level of credit priority) to persons other than regulated liquidity providers through the provision of 5 percent credit enhancement, 100 percent non-asset tested liquidity coverage, and/or 100 percent asset tested liquidity coverage.

Intermediate SPV means a special purpose vehicle that:

- (1) Is bankruptcy remote or otherwise isolated for insolvency purposes from the eligible ABCP conduit, the originator-seller, and any majority owned OS affiliate that, directly or indirectly, sells or transfers assets to such intermediate SPV;
- (2) Acquires assets from the originator-seller or its majority owned OS affiliate, or acquires asset-backed securities issued by, or makes loans to or other investments in, another intermediate SPV or the original seller that are collateralized solely by such assets; and
- (3) Enters into a customer transaction.

Majority-owned OS affiliate means an entity that, directly or indirectly, majority controls, is majority controlled by or is under common majority control with, an originator-seller participating in a customer transaction. For purposes of this definition, majority

control means ownership of more than 50 percent of the equity of an entity, or ownership of any other controlling financing interest in the entity, as determined under GAAP.

Originator-seller means an entity that originates (or acquires using the same underwriting criteria it would use for similar assets it originated) assets and sells or transfers (including by way of pledge to secure a loan) those assets directly, or through a majority-owned OS affiliate, to an intermediate SPV or to an ABCP conduit.

Pre-existing transaction means a customer transaction that is entered into by an ABCP conduit prior to the effective date hereof; provided that the funding commitment of such ABCP conduit or any regulated liquidity provider thereto has not been increased or renewed after the effective date hereof.

Regulated liquidity provider means:

- (1) A depository institution (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813));
- (2) A bank holding company (as defined in 12 U.S.C. 1841), or a subsidiary thereof;
- (3) A savings and loan holding company (as defined in 12 U.S.C. 1467a), provided all or substantially all of the holding company's activities are permissible for a financial holding company under 12 U.S.C. 1843(k), or a subsidiary thereof; or
- (4) A foreign bank whose home country supervisor (as defined in § 211.21 of the Federal Reserve Board's Regulation K (12 CFR 211.21)) has adopted capital standards consistent with the Capital Accord of the Basel Committee on Banking Supervision, as amended, and that is subject to such standards, or a subsidiary thereof.

(b) In general. An ABCP conduit and each related bank sponsor each satisfies the risk retention requirement of §\_\_\_.3 of this part with respect to the issuance of ABCP by an eligible ABCP conduit if the applicable bank sponsor:

- (i) Approves each related customer transaction entered into by such eligible ABCP conduit;
- (ii) Approves each related originator-seller and, if applicable, each intermediate SPV with which an eligible ABCP conduit is permitted to enter into customer transactions;

(iii) Establishes criteria governing the customer transactions, and the assets underlying the customer transactions, entered into by such eligible ABCP conduit; and

(iv) Maintains and adheres to policies and procedures for ensuring that the conditions in this paragraph (b) have been met.

(c) Other bank sponsor compliance with risk retention. The use of the risk retention option provided in this section by an ABCP conduit or its related bank sponsor does not relieve the originator-seller that sponsors ABS interests acquired by an eligible ABCP conduit from such originator-seller's obligation, if any, to comply with its own risk retention obligations under this part.

(d) Periodic disclosures to investors. An ABCP conduit sponsor relying upon this section shall provide, or cause to be provided, to each purchaser of ABCP, before or contemporaneously with the first sale of ABCP to such purchaser and at least monthly thereafter, to each holder of commercial paper issued by the ABCP conduit, in writing, each of the following items of information:

(i) The name of the regulated liquidity provider that provides liquidity coverage to the eligible ABCP conduit, including the amount and nature of such liquidity coverage, and notice of any failure to fund.

(ii) With respect to each customer transaction then included in the ABCP conduit's assets, the asset class of the underlying receivables.

(e) Disclosures to regulators regarding originator-sellers and majority-owned OS affiliates. A bank sponsor relying upon this section shall provide, or cause to be provided, upon request, to the Commission and its appropriate Federal banking agency, if any, in writing, all of the information required to be provided to investors in paragraph (d) of this section, and the name and form of organization of each originator-seller or majority owned OS affiliate that will retain (or has retained) pursuant to this section an interest in the customer transaction.

(f) Duty to comply. Each bank sponsor relying on this section:

(i) May rely on certifications, representations and warranties made by any sponsor of a securitization transaction, any applicable originator-seller or any majority-owned OS affiliate, in each case, to an eligible ABCP conduit, certifying that such person is in compliance with its risk retention requirements under this part; and

(ii) In the event that such bank sponsor becomes aware or has actual knowledge that an originator-seller or majority-owned OS affiliate no longer complies with the requirements of paragraph (b)(1) of this section, shall:

(1) Promptly notify the Commission and its appropriate Federal banking agency, if any, in writing of:

(A) The name and form of organization of any originator-seller that fails to retain risk in accordance with this section and the amount of asset-backed securities issued by an intermediate SPV of such originator-seller and held by the ABCP conduit or, as applicable, the principal amount invested by such ABCP conduit pursuant to any other customer transaction;

(B) The name and form of organization of any originator-seller or majority-owned OS affiliate that hedges, directly or indirectly through an intermediate SPV, its risk retention in violation of this section and the amount of asset-backed securities issued by an intermediate SPV of such originator-seller or majority-owned OS affiliate and held by the ABCP conduit or, as applicable, the principal amount invested by such ABCP conduit pursuant to any other customer transaction; and

(C) Any remedial actions taken by the related bank sponsor or other party with respect to such asset-backed securities or other customer transaction; and

(2) Take other appropriate steps pursuant to the requirements of paragraphs (b)(2)(iv) and (b)(2)(v) of this section which may include, as appropriate, curing any breach of the requirements in this section, or removing from the eligible ABCP conduit any asset-backed security or other customer transaction that does not comply with the requirements in this section.