21 August 2020

Basel Committee on Banking Supervision
Submitted via www.bis.org/bcbs/commentupload.htm

Re: Response to BCBS Technical Amendment on capital treatment of securitisations of non-performing loans

Introduction

The Global Financial Markets Association (GFMA) (including the Association for Financial Markets in Europe (AFME), the Asia Securities Industry & Financial Markets Association (ASIFMA) and the Securities Industry & Financial Markets Association (SIFMA)), the International Association of Credit Portfolio Managers (IACPM), the Institute of International Finance (IIF) and The Structured Finance Association (SFA) (together the "**Joint Associations**")[1] welcome the opportunity to respond to the Technical amendment (the "**TA**") entitled "Capital treatment of securitisations of non-performing loans" published by the Basel Committee on Banking Supervision (the "**BCBS**") and dated June 2020.

The Joint Associations and their members would like to thank the BCBS for the publication of the TA for comment. Over the last several years there has been a significant and increasing use of securitisation techniques to help reduce the volume of non-performing loans ("**NPLs**") on the balance sheets of banks, especially in Europe where the market has been most active. That market activity has highlighted the difficulties associated with applying the securitisation regulatory scheme (and especially the capital rules) to securitisations of NPLs in an appropriate way that produces sensible and risk-sensitive results.

The Joint Associations are encouraged, therefore, to see the BCBS acknowledge "the potential mis-calibration of risk weights applicable" in this context and the need to address that.

We hope that the TA represents the first step in a discussion leading to the development of a common set of rules that will provide a global level playing field for the capital treatment of NPL securitisations and that will encourage more of these transactions to be executed in a risk-sensitive and prudent fashion, strengthening bank balance sheets, freeing up management to focus on new lending and bringing new non-bank investors to share the risk of resolution of NPL portfolios. However, we have significant concerns regarding the proposals in the TA.

[1] See attached Annex 1 for a description of each of the Joint Associations.

Summary of our concerns

- It was our expectation that the BCBS would take forward the work of re-calibrating the SEC-IRBA and SEC-SA formulae through following more closely the proposals set out in the Opinion of the European Banking Authority ("**EBA**") of October 2019 (the "**EBA Opinion**"), including adjustments to the *p*-factor and allowing risk parameter inputs on a net basis.
- This has not been the case and instead the TA risks creating higher risk weights than currently apply, leading both to greater divergence between risk and regulatory capital, an unlevel playing field (especially across the EU, where the revised Basel securitisation framework has been adopted) a greater (not lesser) dependence on the bank/sovereign nexus and less risk-sensitivity in the framework. These results would hinder, rather than encourage, the use of securitisation in resolving NPL challenges for banks globally.
- We understand that a QIS has been undertaken prior to the development of the TA. We have not seen it. We therefore wonder how wide-ranging the data may be, and if it has been correctly interpreted.
- From our knowledge of today's European market for NPL securitisation (the most significant, globally) we struggle to see evidence to justify the proposals in the TA, unless the policy intention is intentionally both to increase capital for NPL securitisations and make it less risk-sensitive.
- We note that the introduction to the TA states that its development began before the onset of the Covid-19 pandemic. Given widespread acceptance that the pandemic will lead to a serious and worldwide economic recession, likely causing significant increases in the volume of NPLs on banks' balance sheets, we question whether the timing for the measures proposed in the TA – that would ultimately make NPL securitisations more difficult and costly – is appropriate.
- It would be more sensible for the BCBS to make amendments that would facilitate the securitisation of NPLs in a prudent and well-studied way, and to do so in an expeditious manner that takes account of the Covid-19 pandemic and seeks to encourage a speedy economic recovery.
- We therefore urge the BCBS to follow more closely the EBA Opinion and to bring forward the implementation date from 1 January 2023 to 1 January 2021. In this respect we would suggest the BCBS adopt the re-calibration work proposed by the EBA Opinion in relation to the SEC-IRBA and SEC-SA formula functions and, to facilitate the immediate use of securitisation for NPLs, allow for the recognition of non-refundable purchase price discount ("**NRPPD**") or specific credit risk adjustment ("**SCRA**") in determining the maximum risk weight for the senior tranche and maximum risk weighted assets for the securitisation positions held as proposed by the EBA Opinion for SEC-IRBA, SEC-SA and SEC-ERBA. The question of NPL securitisations could then be further studied using the data collected over the next few months and years, and adjustments made as necessary to take account of the further quantitative analysis which will be undertaken, taking into account the future development, globally, of the market in securitisation of NPLs. Failing that, we would urge the BCBS to suspend adoption of the TA since the measures suggested would likely impede the NPL securitisation market rather than facilitating its development at this critical time.

We explain our concerns in more detail below, first in general and second focusing on specific proposals which form part of the TA.

General comments

The importance of a well-functioning securitisation framework for resolving NPLs

Securitisation delivers many benefits in resolving stocks of NPLs:

- attracts a wider investor base, so delivering incremental funding;
- helps address the bid-offer gap in pricing NPL portfolio disposals;
- available in large volumes, if appropriately targeted;
- improvement of capital ratios (after write-offs);
- true sale from the balance sheet demonstrating a "clean break";
- flexibility for the seller around which part of the risk is transferred to the investor and which retained (subject to risk retention rules); and
- additional, external third-party scrutiny and credit analysis.

A well-functioning framework for NPL securitisation could therefore do much to support resolution of banks' NPL challenges, which is expected to be further exacerbated by the Covid-19 pandemic and related economic deterioration. Banks are major investors in the senior tranches of NPL securitisations. Therefore, the risk-weight rules which apply where the Basel securitisation framework has been adopted are crucial to a functioning, efficient, prudent and cost-effective market.

However, regulatory issues have been a severe constraint for several years.

The position in Europe, which also has global application

The EBA Opinion was a significant step forward in facilitating easier, more cost-effective yet prudent securitisation of NPLs.[2]

While the EBA Opinion was limited to the EU, the European region is currently the most active market globally for NPL securitisation. In the section which follows we illustrate our concerns by reference to the European market, but the concerns apply wherever institutions are required by law to comply with the revised securitisation framework on a consolidated level.

The EBA Opinion was a helpful step forward

The EBA Opinion adopted a minimal intervention approach providing clarification on the calculation of caps for securitisation positions available for immediate use that preserves the continuity and integrity of the hierarchy of methods for all securitisations. It did this by proposing:

- a "full net basis" calculation as the appropriate approach for determining the caps for securitisation positions under the SEC-IRBA and application of a 100% risk weight for the most senior tranche where the NRPPD is at least equal to 20% under SEC-SA;
- proposed further work on re-calibration of the SEC-IRBA and SEC-SA formulae through adjustment to the *p*-factor and other risk parameters; and
- allowing the use of SEC-ERBA "as is" for both performing and non-performing loan securitisations (particularly helpful for smaller banks).

[2] AFME (the European constituent organisation of the GFMA) welcomed these proposals.

By contrast we note that, the TA:

- prohibits the use of foundation IRB parameters for EAD and LGD for SEC-IRBA;
- prescribes a fixed 100% risk-weight for the senior tranche of qualifying securitisations; and
- imposes a high 50% NRPPD to qualify for such 100% risk-weight.

The TA represents a backward step compared with the EBA Opinion

The proposal in the TA for a fixed risk weight of 100% if the NRPPD is at least equal to 50%, otherwise a 100% RW floor, makes it much more difficult to achieve cost-effective resolution of NPL portfolios because it increases materially the capital required to be held by bank investors, who often use the SEC-ERBA approach for rated senior notes.

This is unhelpful to market development for a number of reasons.

First the retention by the disposing bank of senior tranches of NPL securitisations is key to their execution, especially of offloading the riskier low-rated or non-rated tranches.

Second, the higher capital required will create particular difficulties for those countries, and/or securitisations secured by collateral of reasonable quality, where it is possible to achieve a relatively high rating of A/BBB for the senior tranche, resulting in a risk weight under SEC-ERBA of less than 100%, and sometimes also for those institutions which use the Advanced IRBA under the SEC-IRBA methodology. Some examples are set out below.

Some examples of rated NPL transactions with implied risk weight below 100% (assuming 5 years tranche maturity)

Popolare Bari NPLs 2016 S.r.l.	Baa1	90%
Prisma SPV S.r.l.	Baa1	90%
Spring SPV S.r.l.	Baa1	90%
FINO 1 Securitisation S.r.l.	A2	65%
European RLS 2019-NPL2 DAC	A2	65%
Siena NPL 2018	Baa1	90%
Grand Canal Securities 2-2017	A2	65%

A fuller list of Italian NPL transactions can be found in *BofA Global Research European SF Weekly of 6th July 2020 (Batchvarov and others)* available here.

The QIS, and the impact of Italian NPL securitisations on the data

We understand that a QIS was undertaken prior to the development of the TA. We have not seen it. We therefore wonder how wide-ranging the data may be, and if it has been correctly interpreted.

For example, as the BCBS will be aware, Italy has a low sovereign rating plus a long and difficult enforcement process. This tends to make it challenging to achieve better ratings in Italian NPLs. Indeed, many Italian NPL securitisations are structured to Baa3 (140% risk weight) because this is the minimum rating required to qualify for the GACS scheme. The GACS scheme delivers a risk weight of 0%.

We do not know whether the QIS took into account Italian transactions assuming a pre-GACS or a post-GACS risk weight. If the former, then this may be why the proposal in the TA of a 100% risk weight floor may have seemed reasonable (if the market seemed dominated by transactions with risk weights above 100%). It is also not clear whether such QIS would have had access to the private securitisation market and whether data had been collected from such bilateral / private securitisations (e.g. where institutions currently use the SEC-IRBA methodology).

Future evolution of NPLs across the EU, ex-Italy

Low sovereign ratings, and the slow enforcement aspects of Italian NPL securitisation, are not always found in other European countries, the US or Asia. All global regions can expect to experience a wave of new NPLs in the coming months. It is therefore reasonable to expect more NPL securitisations in the A/A2 range (65% risk weight), or potentially even a little higher.

Data collected from private NPL securitisations undertaken in the EU ex-Italy may lead to better understanding of recoveries including possible divergence of recoveries between different member states, as well as more broadly across different regions internationally.

Incentives will be created to change transaction structures

If the proposals in the TA are adopted, incentives will be created to change market structures which could include:

- greater reliance on sovereign guarantees (similar to GACS in Italy or HAPS in Greece) to achieve a 0% risk weight and avoid the application of the fixed 100% risk weight, increasing the bank / sovereign nexus;
- encouraging a decline in credit quality of senior-most tranches - in the BB to low-BBB range for eligible pools or high BBB range (BBB to BBB+) for non-eligible pools (if a guarantee cannot be found); and
- excluding certain asset classes such as SME loans and residential mortgages which can make higher rated senior tranches (high BBBs to single As) achievable.

All of the above effects would hinder, rather than encourage, the use of securitisation in resolving NPL challenges for banks globally.

Comments on specific proposals in the TA

These are set out below.

1. *Comments on the proposed definition of an NPL securitisation*

   The Joint Associations and our members agree in general with the definition as proposed. However, we have the following comments.

   - The TA would, as drafted, permit national supervisors to impose a stricter definition of "NPL securitisations". The definition should not allow for flexibility unless there are legal impediments in a specific jurisdiction that prevent performing and non-performing exposures to form part of a single securitised pool. Flexibility in the definition will lead to inconsistent application globally, implementation complexity for internationally active banks and potentially promote competitive advantages for certain institutions. We would also note that, for the purposes of determining the percentage of exposures qualifying as NPLs, there should be a defined cut-off date for the portfolio, as some exposures may become performing during the life of the portfolio or prior to issuance of securities and this would otherwise create doubt about whether to apply NPL securitisation treatment to the transaction.

- The reference to the "W" factor as defined in CRE41.6 in turn references the meaning of "delinquent underlying exposures" in CRE41.7. That definition provides individual banks with a high degree of flexibility in deciding what is "delinquent" as it includes any exposure in default, as "defined within the securitisation deal documents". This leaves banks with a high degree of discretion to define "default" broadly for the purposes of gaining access to NPL securitisation rules on a deal-by-deal basis. We would instead suggest that a uniform definition of default as defined in the general Basel Credit Risk Framework be used in order to ensure a level playing field. More generally, we do not believe that reference to the W factor is appropriate as a reference point for determining the percentage of the pool that is non-performing. This is because the W factor is designed to capture credit deterioration of performing pools, rather than securitisations of assets that are non-performing at the point they are transferred into the transaction.

2. *Comments on banning the use of foundation IRB parameters as inputs for the SEC-IRBA in NPL securitisations*

Members of the Joint Associations support this change, since foundation IRB involves modelling only PD, and using fixed regulatory inputs for EAD and LGD. Since an NPL securitisation will by definition involve a high proportion of defaulted assets (which will have a PD of 1), no model can be used at all.

That said, we would emphasise that the same considerations do not apply in respect of advanced IRB, which should remain available for use by banks where authorised by their respective prudential regulators.

3. *Comments on the introduction of a risk weight floor of 100% for all NPL securitisation exposures*

The members of the Joint Associations strongly oppose this aspect of the TA. No justification has been offered for this floor and it is difficult to see what it could be. Further, it would appear to achieve the opposite of the stated aim of the TA to encourage risk-sensitivity in the risk weighting of NPL securitisation exposures in that it is not correlated with the real risk profile of the relevant tranche.

In respect of the SEC-ERBA, there is no reason to give more or less weight to a rating for a securitisation of NPLs than for a securitisation of performing loans. SEC-ERBA would, for example, produce a 65% risk weight for an A-rated senior tranche of a non-performing portfolio (which, even with the TA implemented as proposed, could be achieved by keeping the proportion of the pool that is NPLs just under 90% - which is surely a perverse result). This is just one example of many where a strong case can be made for a risk weight lower than 100%. Similar considerations apply under advanced IRB and SEC-SA in the case of unrated transactions.

The imposition of a 100% risk weight floor also seems to us to be overly conservative, as it would mean that a senior tranche of an NPL securitisation would frequently have the same risk weight as the underlying assets despite the securitisation structure adding significant liquidity and credit enhancement. Rather than encourage the securitisation of NPLs, this would discourage it. It should also be noted that for NPL securitisations where the senior tranche principal is repaid first, this allows the deleveraging of the securitisation and would normally improve the credit rating of the senior tranche over time. A 100% risk weight floor would remove this recognition of improved credit quality from the regulatory capital framework and reduce secondary market appetite for bank investors.

Instead, we would suggest that the floors should remain as they are today for securitisations of performing loans, given that the various approaches already aim to be risk-sensitive, prudent and take account of potential modelling difficulties.

4. *Comments on the introduction of a fixed 100% risk weight applicable to the most senior tranche of "qualifying" securitisations*

This approach would be contrary to the stated aim of making the risk weighting of NPL securitisations risk-sensitive. Some NPL securitisations have risk profiles for which 100% would be disproportionately high as a risk-weight for the senior tranche. Where, for example, the NPLs securitised are predominantly residential or commercial mortgages, the risk weight of the senior tranche may be much lower owing to the appraised market value of the collateral securing the underlying loans. To enable a healthy NPL market to develop, a more risk-sensitive approach should be adopted.

We would recommend using 100% as a ceiling for senior tranches of qualifying NPL securitisations, rather than as a fixed risk weight. This is on the basis of the look-through approach already applied to securitisations. That is to say, banks are already permitted to limit the risk weight of a senior tranche in a securitisation to the risk weight of the underlying assets. For defaulted assets in respect of which a write-down of at least 20% has already been taken, the risk weight of the underlying assets would be 100%. It therefore makes sense to say that, where a pool of defaulted assets has been sold into a securitisation with a NRPPD of at least 20% (rather than the 50% currently suggested as a minimum standard for "qualifying" NPL securitisations), the senior tranche should never be risk weighted at more than 100%. This amounts to an administrative adaptation of a principle already acknowledged by BCBS to be sound. Instead of requiring the 20% write-down to be taken at the asset level, it would be permitted to be taken in the form of a (minimum) 20% NRPPD at the transaction level. Of course, if the applicable capital calculation methodology permits a lower risk weight (e.g. a senior tranche of an NPL securitisation being weighted at 65% under SEC-ERBA because it achieves an A rating) then that should be permitted because the purpose of the ceiling is to avoid the securitisation capital methodology (which is designed to be conservative) being overly conservative and losing risk-sensitivity.

Separately, we would note that we can see no reason this should not apply to synthetic securitisations – provided that our alternative approach is adopted. Synthetic securitisations are also a valid method for banks to share the risk of NPLs and the securitisation framework applies equally to them. No justification has been offered for why they should be excluded from a more beneficial NPL securitisation capital regime and none is obvious to us.

5. *Suggested alternative amendments*

While the below technical amendments are not proposed in the TA, in this context we would like to submit a number of further suggestions which we believe could help achieve a better calibration of risk for NPL securitisations. There are a number of ways in which these might be combined and we would be pleased to discuss this further if that would be helpful:

- Suggestion 1

  The current calculation under the supervisory approaches imposes a double penalty for delinquent loans by including them in K_{SA} and also in the W factor. For example, the K_{SA} for a performing loan may be 8%, which would increase to 12% if it became a non-performing loan. The increased risk of a non-performing loan is therefore captured through the K_{SA}. This double penalty is overly punitive. Where the K_{SA} increases in the event the loan becomes non-performing, banks should be permitted to exclude delinquent assets from W in NPL securitisations in order to avoid the double penalty. Moreover, the definition of NPL securitisation (and associated fixed or capped risk weights for qualifying senior tranches) only partly addresses the problem caused by this, because it leaves the treatment of non-qualifying senior tranches, mezzanine tranches and junior tranches unchanged.

- Suggestion 2

  Rather than applying a flat 100% risk weight when the NRPPD reaches a certain level, the NRPPD could be embedded directly into the SEC-SA itself. This would be achieved by adjusting the SEC-SA loss assumption to reflect the NRPPD.

  NPL securitisations should qualify to be treated under the SEC-SA where banks should be allowed to adjust the loss assumption attributed to the delinquent loans if, as is nearly always the case, they have been bought at a NRPPD. The current SEC-SA calibration assumes a 50% loss on all delinquent loans and to the extent an NPL portfolio is sold with a NRPPD the W parameter should be "reset". This is because both the seller and purchaser have performed their due diligence and each is aware of the portfolio's characteristics: the seller has realised losses (reflected in the NRPPD) and it is unreasonable for the purchaser to continue to assume 50% losses on top of that, as currently stipulated by the W parameter.

  The SEC-SA should be modified to either:

  1. Reset the W parameter to 0% upon the sale of the portfolio.

  2. Modify the 50% loss assumption based on the size of the discount. For example, if the NPL portfolio has been sold at a 20% discount, that means the seller (in many cases the originator), will have realized a loss of at least 20%. Therefore, the 50% loss assumption in the SEC-SA should be reduced by the size of the discount, which in this example would reduce it from a 50% to a 30% loss assumption.

This approach would reduce the RWA volatility from moving into a completely new framework once the 50% NRPPD threshold is hit. Furthermore, calibrating the relief to only apply once the threshold is triggered conflicts with the goal of providing support to the NPL market and allowing banks to reduce their exposure to the risk of these loans. Banks would be incentivised to delay making markets or providing financing until a 50% NRPPD can be achieved. The alternative methodology removes the possibility of this perverse outcome.

- Suggestion 3

In our view it would be helpful if the BCBS focussed its efforts on re-calibrating the SEC-SA and SEC-IRBA formulae. In particular:

(i) adjusting the non-neutrality factor (*p*-factor);

(ii) reconfiguring W; and

(iii) re-assessing how other risk input parameters (including K_{IRB}, pool notional, and LGD) can be adjusted for NPL portfolios so they are calculated on a net basis to take into consideration the NRPPD.

Illustrations of how the advanced IRBA and SEC-SA formulae can be modified are set out below.

Advanced IRBA: Using the full net basis approach described in the EBA Opinion, the securitised pool exposure value (including the attachment and detachment points), K_{IRB} and ELGD should be adjusted to take into consideration the NRPPD. In addition, parameters A, B, C, D and E should be based on the wholesale non-senior, non-granular parameters.

SEC-SA: The *p*-factor should be adjusted from 1 to 0.5, in line with the *p*-factor adopted as part of the SSFA implemented in the US. This reduced capital surcharge on the securitisation exposures relative to the capital charge on the underlying pool makes sense given that the assets in an NPL transaction will be defaulted when they are added to the pool, meaning they already have the highest possible risk weight. W should also be reconfigured as a pre-determined single fixed value (e.g. 0% or 20% - in line with the proposed NRPPD threshold) or a set of values. For example, W could begin with a floor of 20% for the first year (in line with the proposed NRPPD threshold of 20%) and accrete on a straight-line basis to 100% over another 10-year period for the relevant tranche.

- Suggestion 4

The operation of the caps in respect of the SEC-IRBA should be clarified, along the lines described in the EBA Opinion. In particular, a "full net basis calculation" for the purposes of applying the risk weight cap.

- <u>Suggestion 5</u>

  Secured loans, and in particular residential and commercial mortgages, represent a substantial portion of the NPL securitisation market. The presence of real estate as underlying collateral enables a robust credit assessment process to be undertaken for senior tranches of such securitisations, based on appraised market values of underlying properties, net of enforcement and realisation costs, appropriately stressed for market value declines and enforcement delays (which might use the parameters from the most recent regulatory stress tests), and of course capped at the outstanding balance of each loan. Compared to a direct real estate loan, there is an additional link in the enforcement chain, but this is generally mitigated by more conservative LTVs of the loans at the point they are securitised.

  A conservatively structured senior tranche can therefore reasonably be viewed as no more risky than a conventional CRE financing, and having reasonably comparable risk characteristics. Many transactions are certainly considered to have risk profiles commensurate with a risk weight below 100%.

  As a replacement to the foundation IRBA within the SEC-IRBA approach, we would suggest the BCBS consider an approach based on supervisory slotting.

  Supervisory slotting was originally developed as a simpler alternative to the Advanced IRB model to allow those IRBA banks, where they could not obtain approval for Advanced IRBA models required to meet their IRBA coverage thresholds for specialised lending transactions, to adopt an approach which was more risk sensitive than the standardised approach.

  A secured NPL securitisation has many characteristics in common with specialised lending, and the supervisory slotting approach could readily be adapted. Moreover, a risk weight of 70%, which is achieved for the best quality specialised lending transactions, would be a reasonably conservative result, while still allowing some risk sensitivity to recognise the attributes of the strongest transactions.

Conclusion

In closing, we repeat that while the engagement of the BCBS with market participants on this topic is greatly appreciated, we have significant concerns that aspects of the TA, specifically the proposals for the risk weight floor of 100% and the fixed risk weight for senior tranches, could bring about higher risk weights than currently apply, leading both to greater divergence between risk and regulatory capital, an unlevel playing field (especially across the EU), greater not less dependence on the bank/sovereign nexus and less risk-sensitivity in the framework.

Such developments will discourage, rather than encourage, the growth of securitisation as a tool to help resolve the challenges of NPLs on the balance sheets of banks, globally.

Particularly given the economic outlook, we question the timing of the TA and urge the BCBS to re-assess in line with the re-calibration work proposed by the EBA Opinion in relation to the SEC-IRBA and SEC-SA formula functions, and to facilitate the immediate use of securitisation for NPLs to allow for the recognition of NRPPD or SCRA in determining the maximum risk weight for the senior tranche and maximum risk weighted assets for the securitisation positions held as proposed by the EBA Opinion for SEC-IRBA, SEC-SA and SEC-ERBA.

We hope this response is helpful and are grateful for the opportunity to comment on the TA.

Should the BCBS wish to discuss any aspect of our response in further detail, we would be pleased to make ourselves available. Please contact in the first instance Richard Hopkin of AFME (richard.hopkin@afme.eu), Chris Killian of SIFMA (ckillian@sifma.org), Richard Gray of IIF (rgray@iif.com), Som-lok Leung of IACPM (somlok@iacpm.org) or Kristi Leo of SFA (kristi.leo@structuredfinance.org).

Yours faithfully

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ANNEX 1

Description of the Joint Associations

The **Global Financial Markets Association** (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The **Association for Financial Markets in Europe** (AFME) in London and Brussels, the **Asia Securities Industry & Financial Markets Association** (ASIFMA) in Hong Kong and the **Securities Industry and Financial Markets Association** (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, please visit http://www.gfma.org.

The **International Association of Credit Portfolio Managers** (IACPM) is a global industry association established in 2001 to further the practice of credit exposure management by providing an active forum for its member institutions to exchange ideas on topics of common interest. The IACPM's institutional member firms comprise the world's largest financial institutions, and as such overlap the membership of several other financial industry associations. Our perspective is different, however, in that the IACPM represents the teams within those institutions who have responsibility for managing credit portfolios, including actively controlling concentrations, adding diversification, managing the return of the portfolio relative to the risk and applying capital to new lending. In carrying out these responsibilities successfully, credit portfolio managers contribute to maintaining the safety and soundness of their respective financial institutions. Effective credit portfolio management is critically important to our prudential supervisors and to policy makers more broadly because of its role in supporting financial institutions' ability to lend.

The **Institute of International Finance, Inc.** (IIF) is a global association created in 1983 in response to the international debt crisis. The IIF has evolved to meet the changing needs of the international financial community. The IIF's purpose is to support the financial industry in prudently managing risks, including sovereign risk; in disseminating sound practices and standards; and in advocating regulatory, financial, and economic policies in the broad interest of members and foster global financial stability. Members include the world's largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. Among the IIF's Associate members are multinational corporations, consultancies and law firms, trading companies, export credit agencies, and multilateral agencies. All of the major markets are represented and participation from the leading financial institutions in emerging market countries is also increasing steadily. Today the IIF has more than 470 members headquartered in more than 70 countries. For more information, please visit www.iif.com.

The **Structured Finance Association** (SFA) is an industry trade association established in 2013 with the core mission of supporting a robust and liquid securitization market, recognizing that securitization represents an essential source of core funding for the real economy. Under this mission, the Association is dedicated to: educating members, legislators, regulators, and other constituencies about structured finance, securitization, and related capital markets; building the broadest possible consensus among members on policy, legal, regulatory, and other matters affecting or potentially affecting the industry; advocating with respect to policy, legal regulatory, and other matters affecting or potentially affecting the industry; and upholding our core principles of governance, financial transparency, inclusion, and respectful accommodation of divergent member views. SFA comprises over 370 institutional members, representing all sectors of the securitization market, including issuers, investors, financial intermediaries, law firms, research and analytical firms, rating agencies, servicers, and trustees.