November 12, 2015

Mr. Jacob J. Lew Secretary U.S. Department of the Treasury 1500 Pennsylvania Avenue, NW Washington, D.C. 20220	Ms. Janet Yellen Chair Federal Reserve Board of Governors 20th Street and Constitution Avenue N.W. Washington, D.C. 20551
Mr. Thomas J. Curry Comptroller of the Currency Office of the Comptroller of the Currency 400 7th Street, SW Washington, D.C. 20219	Mr. Martin J. Gruenberg Chairman Federal Deposit Insurance Corporation 550 17th Street, NW Washington, D.C. 20429

Dear Secretary Lew, Chair Yellen, Comptroller Curry, and Chairman Gruenberg:

The undersigned organizations write to express concerns with the potentially very negative impact that the Basel Committee on Banking Supervision's Fundamental Review of the Trading Book (FRTB) rules would have on the American financial markets, particularly as related to securitized products in the United States. We strongly believe that substantial additional work on the BCBS' proposed Framework is required in advance of the US consideration of these rules in order to avoid negative impacts on the American securitization market and consequent increases to the cost to US consumers and American businesses. Congress and regulators have implemented significant changes to the capital and regulatory regime in the US, and we are concerned that the proposed rules go well beyond and ignore substantial reforms of the securitization market already in place due to Dodd-Frank and other reforms.

Following the crisis of 2007-2008, the Basel 2.5 amendments significantly increased trading book capital requirements for securitized products, and we are not aware of any evidence to suggest that further capital increases are warranted. In addition, there have been fundamental changes to the quality of assets being securitized since the crisis – whereas the crisis was largely driven by US subprime MBS collateralized by poorly underwritten loans and resecuritizations thereof, underwriting standards (and regulations regarding mortgage origination) are much stronger today.

As such we are gravely concerned by reported major increases in capital requirements, a major driver of which are the proposed punitive requirements for securitized products.[1] An analysis of the proposal showed that, on average, required capital levels for securitization positions would more than double. In addition, in many cases the required capital levels would exceed the maximum potential loss of the position. [2]

We understand that the default risk capital requirements are applied to both banking and trading book positions. However, under FRTB, trading book positions are subject to a further requirement that appears to overlap with the banking book requirement. We further understand that ISDA, IIF and GFMA have proposed solutions to the BCBS that are consistent with the objectives of wider BCBS work to reduce regulatory arbitrage and to achieve simplicity, consistency and comparability across the regulatory capital framework. While Basel officials are working to adjust the calibration of the FRTB regarding securitizations, we underscore that major amendments are needed to address the impact across the entire capital structure given how severe the results are. We are concerned that failing to do so will result in a marketplace that is fundamentally less competitive in a way that is not commensurate with the risks in the trading book particularly when the cumulative effects of Dodd-Frank, Basel III and other related regulations are considered.[3]

A major increase in capital requirements would negatively impact consumers, businesses and markets that rely on securitizations. Faced with steep capital increases for holding securitized products, we expect that banks will essentially be left with alternatives including: (i) reducing or eliminating this activity depending on how far below return hurdle rates the activity is; or (ii) imposing greater costs to the investor base through wider bid/offer spreads or enhanced turnover. Regardless of the choice made by banks, we expect that without significant amendments, secondary market capacity will decrease and this would likely have the effect of decreasing the availability of or increasing the cost of credit. This would reduce the attractiveness of the assets for investors, who may demand

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[1] See letter from GFMA, ISDA, and IIF addressing securitization issues as well as non-modellable risk factors, the residual risk add-on, the standardized approach, treatment of sovereigns, and emerging markets, among other concerns. The letter is available here: http://gfma.org/correspondence/item.aspx?id=732

[2] Analysis run by the Global Association of Risk Professionals (GARP) and reported by ISDA, IIF and GFMA.

[3] E.g., revisions to the securitization framework, implementation of credit risk retention requirements, and revisions to the offering process and disclosure under Regulation AB II.

additional premiums as part of origination, making issuance more expensive for originators. Consequently the issuer clients will likely see higher costs.

This is a critical issue because securitization provides funding for a significant portion of the U.S. consumer, commercial, multifamily, and business loan markets. For example, commercial mortgage-backed securities are a vital component of the over $3.5 trillion commercial real estate debt market, currently comprising roughly one quarter of total funding for the market. We suggest that significantly adjusted capital requirements are required to preserve an activity that can play a very beneficial role in the economic recovery that is either taking place or is at the heart of policymaker's goals and objectives.

As another example, we believe we share the view of the Administration that a liquid and efficient private market for non-agency residential mortgage-backed securities is critical and essential to the successful resolution of Fannie Mae and Freddie Mac and to restore mortgage credit availability. We fear that, if not significantly amended, these rules would significantly harm that recovery. This would also run counter to the Treasury Department's extensive and commendable efforts to restore vigor to non-agency mortgage securitization.

We have attached a report that was published on October 30, 2015 by JP Morgan Securities which provides a concise overview of the impact of the proposal on specific transactions, and encourage you to review it. The scenarios outlined therein represent a worst-case scenario of no amendments, but illustrate the material amount of change that is needed.

While we understand that the Basel Committee is focused on securitization treatment and calibration before making its final recommendation to the BCBS, we urge you to ensure that this issue is appropriately addressed well before the rules are considered for implementation in the United States. As noted above, merely cosmetic changes to the capital levels will not solve this problem – significant amendments are needed to eliminate the overlapping requirements, excessive credit spread risk charges, and other problems. This could be done prior to or during a monitoring period. In our view, such a monitoring period would help in quantifying the rules' impact on securitizations in more detail. However, the monitoring exercise should be conducted on a granular level -- segmenting markets by asset class and geography -- to ensure that FRTB's impacts on the securitization markets are fully understood and would not impose undue costs on the American financial system without demonstrated and publically-considered benefits.

Furthermore, the results should be discussed in the Basel Committee in the context of the FRTB's objectives, as well as in the context of the wider BCBS objectives of simplicity, comparability and risk sensitivity of capital standards, and revision of the securitization framework regarding high quality securitization.[4] Without carefully considering the impacts, there is a significant risk of fragmented implementation of the rules due to divergent regional securitization markets and political priorities.

Please do not hesitate to contact any of the undersigned organizations with questions or for more information. We remain committed to assisting policymakers in the resolution of these outstanding items.

Sincerely,

Commercial Real Estate Finance Council

Loan Syndications and Trading Association

Mortgage Bankers Association

National Association of Home Builders

The Real Estate Roundtable

Securities Industry and Financial Markets Association

Structured Finance Industry Group

[4] http://www.bis.org/bcbs/publ/d343.htm