

**Meeting Between Staff of the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency and Representatives of the International Association of Credit Portfolio Managers
September 5, 2024**

Participants: David Alexander, Mark Buresh, Lesley Chao, Sarah Dunning, Anna Lee Hewko, David Imhoff, Robin Oh, and Andrew Willis (Federal Reserve Board)

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Venus Fan, Kevin Korzeniewski, Benjamin Pegg, Christopher Rafferty, Andrew Tschirhart, and Jie (Diana) Wei (Office of the Comptroller of the Currency)

Jennifer Bearden, Som-Iok Leung, and Tamar Joulia (International Association of Credit Portfolio Managers); Gareth Old and Young Kim (Clifford Chance); Chris Horn (Cadwalader); Peter Jerauld and Mike Cooney (Citigroup Inc.)

Summary: Staff of the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency met with representatives of the International Association of Credit Portfolio Managers (IACPM) regarding the agencies' Basel III endgame notice of proposed rulemaking. Representatives of IACPM discussed IACPM's comment letter on the proposal, with a focus on the impact of the proposed changes to the *p*-factor for securitization exposures.

Attachment

Increasing the p-Factor: Effects on the Securitization Capital Surcharge

	EXISTING RULES p-factor = 0.5		PROPOSED RULES p-factor = 1.0	
<u>Underlying Loans</u>	<u>Unsecuritized Pool Risk Weight</u>	<u>Securitized Pool Risk Weight</u>	<u>Unsecuritized Pool Risk Weight</u>	<u>Securitized Pool Risk Weight</u>
FIRST LIEN RESIDENTIAL MORTGAGE LOAN (80%<LTV≤90%)	50%	75%	60%	120%
--Underlying risk weight is being increased under the proposed rules (from 50% to 60%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			20% greater than existing rules.	60% greater than existing rules.
AUTO LOANS	100%	150%	85%	170%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 85%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			15% less than existing rules.	13% greater than existing rules.
LARGE BUSINESS: LOAN TO INVESTMENT GRADE RATED/PUBLICLY-TRADED CORPORATE	100%	150%	65%	130%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 65%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			35% less than existing rules.	13% less than existing rules.
SMALL BUSINESS: LOAN TO SME	100%	150%	85%	170%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 85%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			15% less than existing rules.	13% greater than existing rules.
CAPITAL CALL FACILITIES	100%	150%	100%	200%
--Underlying risk weight is staying the same under the proposed rules (100%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			Same as existing rules.	33% greater than existing rules.

Notes:

- “Unsecuritized Pool Risk Weight” means the risk weight that would apply if the Bank holds all of the loans on its balance sheet in unsecuritized form.
- “Securitized Pool Risk Weight” means the risk weight that would apply if the Bank holds all tranches of a securitization backed by the same pool of loans.

Increasing the p-Factor: Effects on CRT Tranche Sizes

	EXISTING RULES p-factor = 0.5		PROPOSED RULES p-factor = 1.0	
<u>Underlying Loans</u>	<i>Size of Retained Senior Credit Tranche</i>	<i>Size of Hedged Junior Credit Tranche</i>	<i>Size of Retained Senior Credit Tranche</i>	<i>Size of Hedged Junior Credit Tranche</i>
FIRST LIEN RESIDENTIAL MORTGAGE LOAN (80%<LTV≤90%)	95.5%	4.5%	89.4%	10.6%
<i>--Underlying risk weight is being increased under the proposed rules (from 50% to 60%).</i>			<i>6.4% thinner than existing rules.</i>	<i>135.6% thicker than existing rules.</i>
AUTO LOANS	87.8%	12.2%	82.1%	17.9%
<i>--Underlying risk weight is being decreased under the proposed rules (from 100% to 85%).</i>			<i>6.5% thinner than existing rules.</i>	<i>46.7% thicker than existing rules.</i>
LARGE BUSINESS: LOAN TO INVESTMENT GRADE RATED/PUBLICLY-TRADED CORPORATE	87.8%	12.2%	88.0%	12.0%
<i>--Underlying risk weight is being decreased under the proposed rules (from 100% to 65%).</i>			<i>0.2% thicker than existing rules.</i>	<i>1.6% thinner than existing rules.</i>
SMALL BUSINESS: LOAN TO SME	87.8%	12.2%	82.1%	17.9%
<i>--Underlying risk weight is being decreased under the proposed rules (from 100% to 85%).</i>			<i>6.5% thinner than existing rules.</i>	<i>46.7% thicker than existing rules.</i>
CAPITAL CALL FACILITIES	87.8%	12.2%	77.0%	23.0%
<i>--Underlying risk weight is staying the same under the proposed rules (100%).</i>			<i>12.3% thinner than existing rules.</i>	<i>89% thicker than existing rules.</i>

Notes:

- Tranche sizes calibrated to achieve a 20% risk weight for the retained senior tranche.
- Market convention is to round 87.8%/12.2% to 87.5%/12.5%, and to round 95.5%/4.5% to 95%/5%.

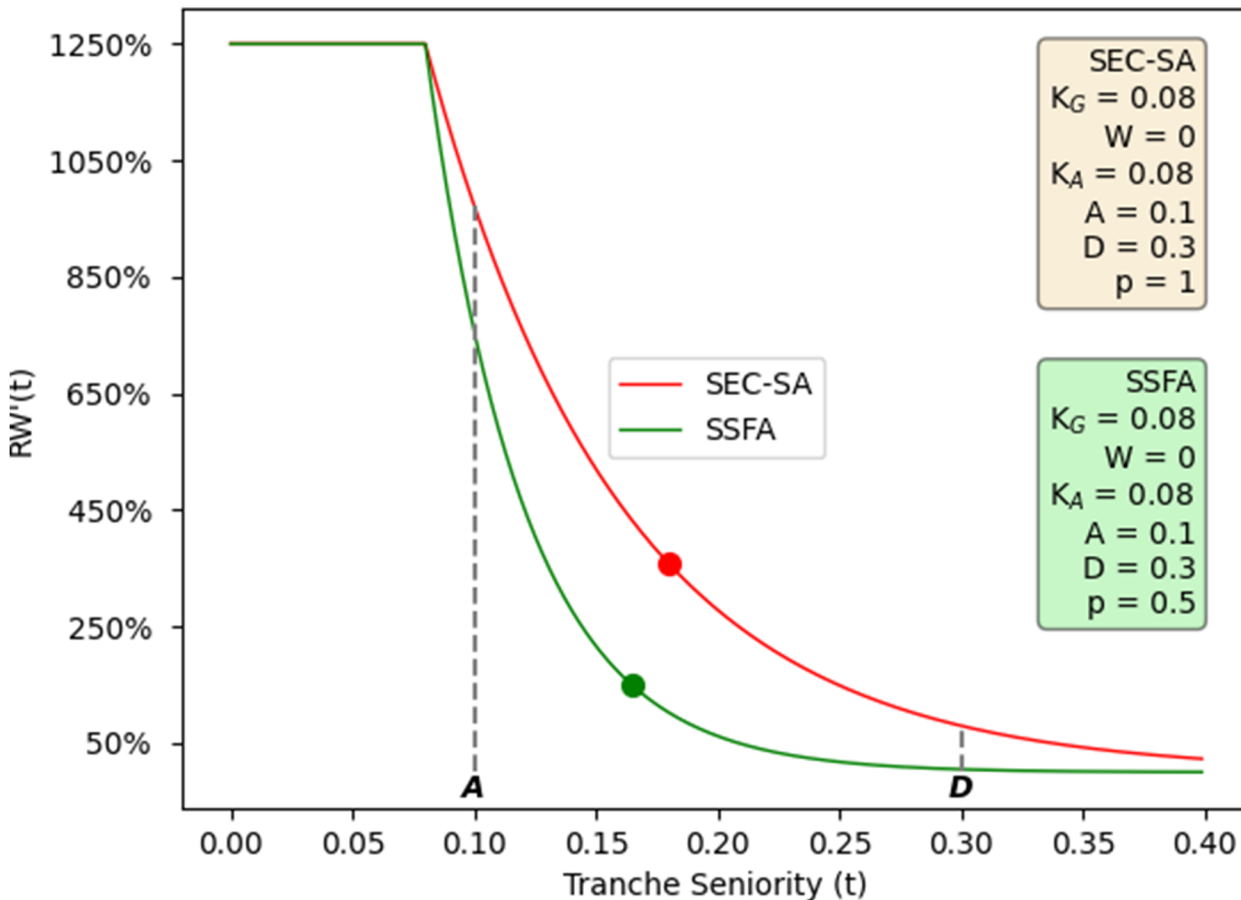
Risk Weights for Securitization Exposures

Under SSFA and SEC-SA, the risk weight for a securitization exposure is the average value of the marginal risk weighting function, $RW'(t)$, for that securitization exposure, measured over the interval $t = A$ to $t = D$, where A and D are the attachment and detachment points, respectively, of the securitization exposure.

$$RW'(t) = 1250\% * e^{-\left(\frac{1}{p * K_A}\right)(\max t - K_A, 0)}$$

p is the supervisory calibration parameter (the p-factor), K_A is the capital requirement of the underlying exposures, adjusted for defaults, and t is a given point of seniority, ranging from 0 to 1.

Increasing the p-factor from 0.5 (under SSFA) to 1.0 (under SEC-SA) is very material. Below is an example of a securitization exposure with an attachment point of 0.1 and detachment point of 0.3.¹ Under SSFA, the risk weight (marked by the green dot) is 150.6%. Under SEC-SA, the risk weight (marked by the red dot) is 357.4%.



¹ This example was first presented by the Structured Finance Association in a meeting with the banking regulators on March 14, 2024.