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Securitisation framework
Hong Kong (香港資產證券化框架)
Legal Overview

MARCH 2021

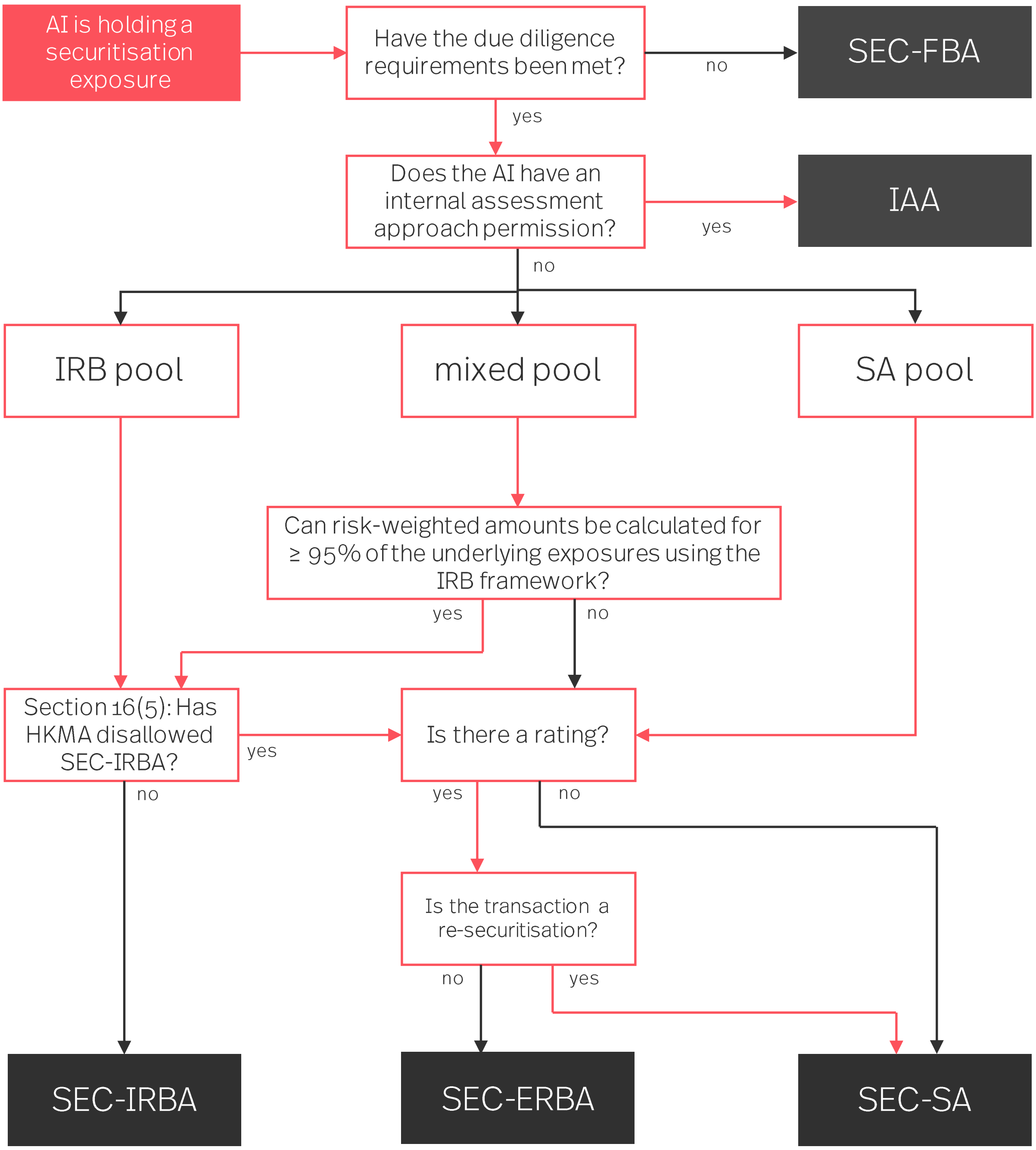
Securitisation exposure (證券化類別風險承擔) means an exposure of a person to a securitisation transaction

Securitisation transaction (證券化交易) means a transaction involving the tranching of credit risk associated with a pool[1] of underlying exposures and in respect of which

(a) there are not less than 2 different tranches

(b) payments to investors or other parties to the transaction depend on the performance of the underlying exposures and

(c) the subordination of tranches determines the distribution of losses during the life of the transaction.



(1) HKMA Supervisory Policy Guide CR-G-12 highlights it is technically possible to have a securitisation involving a single underlying exposure.

What are the due diligence requirements?

The authorised institution (AI) concerned must have a comprehensive understanding, on a continuous basis, of the risk characteristics of the securitisation exposure concerned (whether on balance sheet or off-balance sheet) and the pool of underlying exposures of the securitisation transaction that gave rise to the securitisation exposure. The AI must have a thorough understanding of each structural feature of the transaction that has the potential to materially affect the performance of the securitisation exposure.

The AI must be able to access the following information on a continuous basis and in a timely manner:

- if the transaction is not a re-securitisation transaction–performance information on the underlying exposures (including issuer name and credit quality) and;
- if the transaction is a re-securitisation transaction performance information on the underlying exposures (including issuer name and credit quality and information on the risk characteristics and performance of the underlying exposures of the original securitisation transaction being resecuritised through the re-securitisation transaction.

Even if the due diligence requirements are met, SEC-FBA must still be used if, in practice, the AI is unable to use SEC-IRBA, SEC-ERBA and SEC-SA.

What is the internal assessment approach (IAA)?

The IAA is an approach to calculating regulatory capital applicable for banks who hold a securitisation exposure through an asset-backed commercial paper (ABCP) conduit. HKMA permission is required and it allows banks to use internal models based on publicly available rating agency criteria.

IRB pool

The underlying exposures are IRB underlying exposures and the AI has all the data and information necessary for calculating the risk-weighted amounts of all of them in accordance with the normal IRB framework.

"**IRB underlying exposures**" are underlying exposures that fall, or would fall if they were held directly by the AI, within an IRB class or IRB subclass for which the AI has an approval granted to use the IRB approach to calculate the credit risk.

Mixed pool

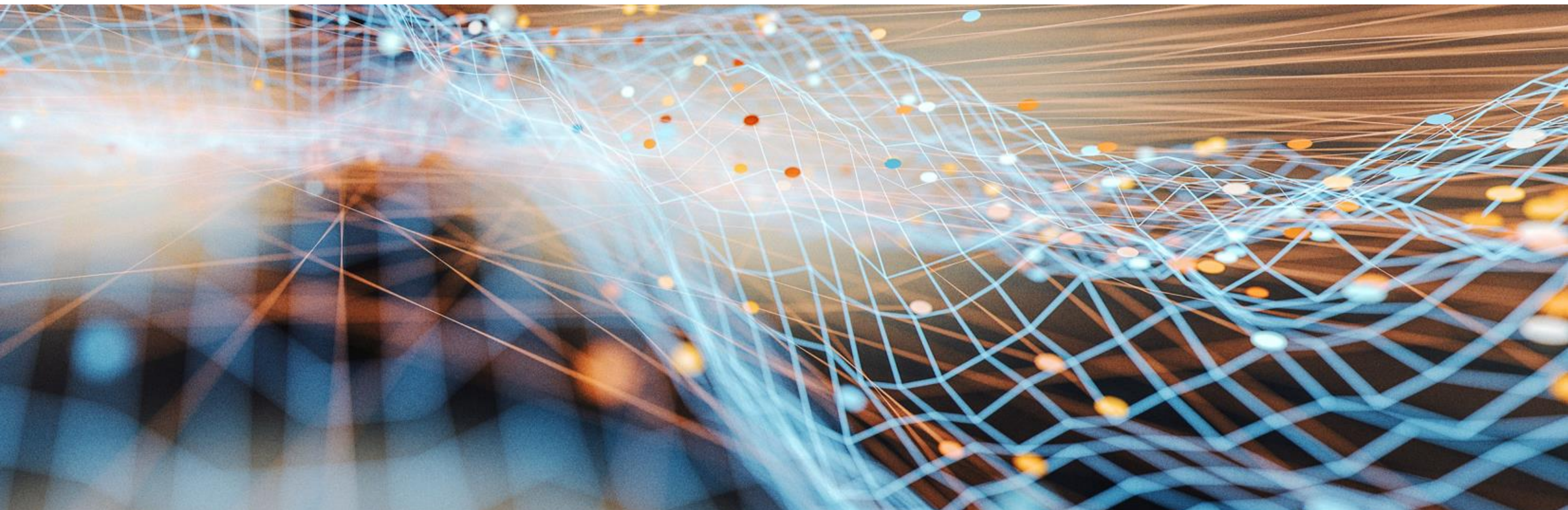
Some or all of the underlying exposures in the pool are IRB underlying exposures and the AI has all the data and information necessary for calculating the risk-weighted amounts of some, but not all, of the underlying exposures in the pool in accordance with the normal IRB framework.

SA pool

The AI uses, or if the underlying exposures were held directly by the AI, it would use, the STC approach or BSC approach to calculate the credit risk for all the underlying exposures in the pool.

Some or all of the underlying exposures in the pool are IRB underlying exposures, but the AI is unable to calculate the risk-weighted amount of any of the IRB underlying exposures in accordance with the normal IRB framework due to a lack of necessary data and information.

All re-securitisation transactions.



Has HKMA disallowed SEC-IRBA?

The HKMA may, by notice in writing given to the AI, require it to classify a pool of underlying exposures as an SA pool if the HKMA considers that the classification of the pool as an IRB pool would result in a less prudent estimate of the capital charge for the AI's securitisation exposure to the transaction given the particular structure of the transaction or the characteristics of the underlying exposures of the transaction.

Is there a rating?

A securitisation exposure is rated if it has a rating from a rating agency selected by the AI for regulatory capital calculations or there is an inferred rating.

An inferred rating is a rating which can be attributed to a securitisation exposure by making reference to another securitisation exposure that is rated and meets certain criteria (e.g., equal or longer maturity, equal or more junior ranking etc.).

Is it a re-securitisation?

re-securitisation exposure (再證券化類別風險承擔):

- means a securitisation exposure that is an exposure to a re-securitisation transaction; but
- does not include a securitisation exposure of an AI or another person resulting from retranching another securitization exposure where the AI has verified that the cash flows to and from the AI or the person could be replicated, in all circumstances and conditions, by an exposure to a securitisation transaction of which the underlying exposures contain no securitisation exposures.

re-securitisation transaction (再證券化交易) means a securitisation transaction in respect of which not less than one of the underlying exposures of the transaction is a securitisation exposure.

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