



The Volcker Rule – SFIG Recommendations

SFIG Member Meeting

February 12, 2019

Introduction

- **SFIG members and staff in attendance**

- Jane Chwe – Director & Associate General Counsel, Citi
- Carol Hitzelberger – Partner, Co-Head of Banking & Finance, Mayer Brown
- Sairah Burki – Head of ABS Policy, SFIG
- Jennifer Wolfe – Director, ABS Policy, SFIG

Overview

- **SFIG members are pleased to have this opportunity to discuss our recommendations for clarifying certain aspects of the Volcker Rule**
- **Dodd-Frank states that securitization would be exempt from restriction under the Volcker Rule, but its practical application has impeded bank participation in securitization**
- **We appreciate the Agencies' recognition in its recent NPR that the 2013 Final Rule may have resulted in ambiguity, overbroad application, and unduly complex compliance requirements**
 - We particularly welcome the Agencies' renewed focus on the broad definition of covered fund and will applaud any changes that narrow its scope to the purposes intended by Dodd-Frank
- **Given our focus on issues specific to the securitization industry, our most recent comment letter focused on changes to:**
 - (i) the Loan Securitization Exemption ("LSE") and qualifying asset-backed commercial paper conduit exclusion that would allow them to work in practice for most customary securitizations; and
 - (ii) the definition of "ownership interest" that would make it more workable for securitizations

Loan Securitization Exclusion

- **Issue**
 - The LSE does not properly exclude securitization structures

- **Solutions**
 - Modify the LSE such that:
 - It does not require issuance of asset-backed securities
 - Clearly permits issuers to hold leases and other assets that are not securities
 - Tests whether a securitization is primarily backed by qualifying assets that are not impermissible securities or derivatives (issuer permitted to hold at least 10% of its assets in non-compliant assets)

ABCP Conduits

- **Issue**
 - The qualification for ABCP conduits has been ineffective as an exclusion from the Super 23A prohibitions, and therefore not available to bank-sponsored ABCP programs

- **Solutions**
 - No requirement for full liquidity support from sponsor
 - Remove 397-day tenor requirement
 - Permit all assets that may be held by an issuer and that qualify for the LSE

Definition of Ownership Interest

- **Issue**

- Definition of Ownership Interest is too broad and complex
 - Seven criteria determine the concept of “other similar interest”
 - Lack of clarity causes unnecessary time and expense

- **Solutions**

- Remove the category of “other similar interest” from the determination of ownership interest
- Safe harbor exclusion for any loan, repurchase facility, derivative exposure, debt security or other form of bank financing pursuant to documents that provide the debt holders with the right to receive stated interest and principal by a final maturity date
- Redefine “ownership interest” as “voting security” from Regulation Y