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By electronic submission to: EBA-CP-2013-07@eba.europa.eu

Re: May 2013 Consultative Document – Draft Regulatory Technical Standards On the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets under Article 379 of the proposed Capital Requirements Regulation (Article 390 of the CRR published in the Official Journal on 26 June 2013).

Ladies and Gentlemen,

JPMorgan Chase & Co. appreciates the opportunity to comment on the Consultative Document, *Draft Regulatory Technical Standards On the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets under Article 379 of the proposed Capital Requirements Regulation*, issued by the European Banking Authority to implement draft regulatory technical standards (RTS) on the basis of the final text published in the Official Journal of the European Union on 26 June 2013.

I. Summary

Our views expressed in this letter are in line with the JP Morgan Chase & Co response sent to the Basel Committee on Banking Supervision's (the "**Basel Committee**" or the "**Committee**") March 2013 Consultative Document, *Supervisory framework for measuring and controlling large exposures* (the "**Proposed Framework**" or the "**Framework**").

In addition, the collective response sent by The Clearing House Association L.L.C. ("**The Clearing House**"), the American Bankers Association (the "**ABA**"), and the Global Financial Markets Association ("**GFMA**") (collectively, "**the Associations**") to the Committee's Consultative Document also contain material to which we refer in this response.

We support the continuation of the 2009 CEBS Guidelines recognition of the risk mitigation of subordinated tranches. This is because treating all tranches in a securitisation equally generalises the impact of the different tranches and penalises the senior tranche.

We believe the potential underlying risk concentrations that may exist in a bank's holdings of securitisations would be much better addressed by using a Pillar 2 approach, given that the prudential benefit of looking through to the underlying exposures of highly diversified transactions such as very granular funds, is extremely limited. Should the EBA feel that a Pillar 1 framework is required, we believe that granularity and / or materiality thresholds for determining a look-through approach to underlying assets should be retained.

We believe that the requirement to monitor the composition of a transaction with underlying assets at least monthly would imply unjustified costs for institutions. We propose a quarterly frequency of monitoring of portfolios, in line with the publication of securitisation reports.

II. Calculation of the relevant exposure value and valuation of securitisations

The 2009 CEBS Guidelines recognised credit enhancements for large exposure purposes. This consultation paper proposes not to recognise any protection provided by subordinated tranches to the other tranches, thereby treating all tranches in a securitisation equally. Effectively, all tranches would be treated as fully exposed to the underlying names, as if they were the first loss tranche.

We disagree with this proposal, and feel there is a strong case for the continuation of the recognition of the risk mitigation of subordinated tranches. This is because treating all tranches in a securitisation equally so that the risk mitigation of subordinated tranches is not recognised, generalises the impact of the different tranches and penalises the senior tranche. We refer to the Associations' comment to the Basel Committee's March 2013 consultation paper.

III. Unknown client and materiality threshold

The consultation paper's proposal not to include a granularity threshold for determining a look-through approach to underlying assets is a change from the current CEBS Guidelines and a deviation from the Basel Committee's proposals in this area, which allowed a threshold limit of 5% and 1% of the total value of the transaction, respectively.

As noted in the JP Morgan Chase & Co comment letter on the Framework, we believe the potential underlying risk concentrations that may exist in a bank's holdings of securitisations would be much better addressed by using a Pillar 2 approach. Under such an approach, banks would be required to perform a review of possible concentrations of indirect exposure in their holdings of collective investment units, securitisations and similar vehicles on a regulator basis, and document, with appropriate quantitative support, whether or not any large indirect exposures exist. If a significant exposure is revealed through this review, it would be included in the overall exposure, and subject to the normal limits.

If the EBA is unwilling to consider a Pillar 2 approach, we strongly believe that a granularity threshold (based on the size of individual exposures relative to the scheme) or materiality threshold (based on size relative to the institution's capital) should be applied before look-through is required.

Investors in most structured products typically would not be inclined to purchase securities that had very large, single name concentrations. For example:

- All retail securitisations (residential mortgage, auto, credit card) have small underlyings which are not comprised of large financial institutions, and are subject to strict rating agency criteria for diversification.
- Collateralised loan and debt obligations typically have corporate underlyings, the exposures to which are immaterial relative to the level of Tier 1 capital limits.
- For commercial mortgage-backed securities, exposures are to special-purpose vehicles, secured by underlying real estate assets, not large financial institutions.

The prudential benefit of looking through to the underlying exposures of such transactions is, therefore, extremely limited, but will create a significant administrative burden and additional operating costs. The alternative treatment of treating all exposures not subject to 'look-through' as a single 'unknown' exposure may yield unknown exposure values which are too large in many cases.

In the current CEBS guidelines, a granularity threshold is used: if the nature of the scheme is such that no single exposure is greater than 5% of scheme assets, look-through is not required. We believe that this should be continued, as it represents a reasonable threshold below which it should not be necessary to look through to underlying assets. A threshold based on the size of the investment in the scheme relative to the institution's own capital resources could also be applied.

IV. Monitoring frequency of portfolios

The consultation paper proposes that, whilst the underlying assets for static portfolios do not change over time so ongoing monitoring will not entail additional work, the composition of dynamic portfolios must be monitored on an 'on-going' basis. Notably, the consultation paper states that the monitoring frequency shall be appropriate to the frequency and materiality of the changes in the underlying assets of the transactions, and shall, as a minimum, be monthly.

We believe that the requirement to monitor the composition of a transaction at least monthly would imply unjustified costs to the institutions. We propose a quarterly frequency of monitoring of portfolios, in line with the publication of securitisation reports which are generally quarterly.

V. Responses to consultation paper questions

Q.1 Is the treatment provided in Article 5 sufficiently clear and do the examples provided appropriately reflect this treatment?

We refer to paragraph II above, and the Associations' comment to the Basel Committee's March 2013 consultation paper.

Q.2 Is there an appropriate alternative way of calculating the exposure values in the case of securitisations, which would be compatible with the large exposures risk mitigation framework as set out by the draft CRR?

The potential underlying risk concentrations that may exist in a bank's holdings of securitisations would be much better addressed by using a Pillar 2 approach. Under such an approach, banks would be required to perform a review of possible concentrations of indirect exposure in their holdings of CIUs, securitisations, and similar vehicles on a regulator basis and document, with appropriate quantitative support, whether or not any large, indirect exposures exist. If a significant exposure is revealed through this review, it would be included in the exposure, and subject to normal limits.

The lack of recognition of any protection provided by subordinated tranches to the other tranches could cause an overstatement of the exposure. Therefore, the recognition of this risk mitigation tranches should be continued.

See paragraph II above.

Q.3 Would the application of requirements provided by Article 6 (3) and (4) imply unjustified costs to the institutions? Would the introduction of a materiality threshold be justified on a basis of a cost-benefit analysis? Please provide any evidence to support your response.

We believe that the proposed lack of any threshold before look-through is required for unknown underlying exposures would cause an undue administrative burden and additional operating costs. As noted several times in this letter, we support a Pillar 2 approach for an institution's holding of such highly diversified exposures which would be a more efficient way to capture any large exposures embedded in securitisation structures. Again, barring a Pillar 2 approach, we believe the current 5% granularity threshold should be retained.

See paragraph III above.

Q.4 Keeping in mind that such materiality threshold would need to be sufficiently low in order to justify that all unknown underlying assets of a single transaction would be assigned to this transaction as a separate client, what would be the right calibration? Would the reference value (the institution's eligible capital) be appropriate for this purpose? Please provide any evidence to support your response.

We believe that using the institution's eligible capital could be appropriate as a reference value for this purpose, as this would reflect the potential impact of a unknown exposure on the institution, and would be consistent with the large exposures limits themselves.

See paragraph III above.

Q.5 Would the requirement to monitor the composition of a transaction at least monthly, as provided by Article 6 (5), imply unjustified costs to the institutions? Please provide any evidence to support your response.

We believe that the requirement to monitor the composition of a transaction at least monthly would imply unjustified costs to the institutions. We propose a quarterly frequency of monitoring of portfolios in line with the publication of securitisation reports, which are mostly published quarterly.

See paragraph IV above.

Q6: Are there other conditions that could be met by the structure of a transaction in order to not constitute an additional exposure according to Article 7?

We refer to our earlier point in paragraph III regarding highly diversified exposures and how the prudential benefit of looking through to the underlying exposures of such transactions is highly limited.

We also suggest to not constituting as an additional exposure any regulated vehicle authorised by a Member State or by a third country Competent Authority.

Yours sincerely.