

ZENTRALER KREDITAUSSCHUSS

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**Answer to the
International Organization of Securities Commissions (IOSCO)
Standing Committee on Secondary Markets (SC2)
concerning the
Transparency of Structured Finance Products (SFPs)
Questionnaire for Industry Participants
- Part E -**

January 2009

Preface

The Zentraler Kreditausschuss ZKA¹ appreciates the enquiry of IOSCO on the transparency of structured finance products in the secondary market and responds to Part E of the Questionnaire for Industry Participants questions 5 to 14 as follows:

E. Need for post trade transparency in SFPs

Q5 – What do you see as the potential benefits associated with the creation of mandatory post-trade transparency for SFPs?

SFPs are individually prepared securities which, in contrast to shares or tradable bonds, are not listed at an exchange. On account of their individual structure, price information published after trade is of limited significance, since comparable SFPs do not exist and it is hardly possible to draw conclusions on the trade value of other SFPs.

This means that the informative value of trade reporting is very limited for market participants. But high expenditure for practical implementation would also ensue.

Q6 - What do you see as the potential drawbacks associated with mandatory post-trade transparency for SFPs?

In the case of critical situations on the capital markets, post-trade transparency can have an exacerbating effect, since generalised conclusions would be drawn from price publications for some SFPs. However, generalised conclusions are not applicable on account of the various structures of the individual SFPs (refer to Q5 above), since the effects of a markdown on one specific SFP are not known for other SFPs.

We also see a danger that price and volume publications could intensify the tendency to herd behaviour, resulting in a negative price spiral.

¹ The ZKA is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks financial group, and the Verband deutscher Pfandbriefbanken (VdP), for the mortgage banks. Collectively, they represent more than 2,200 banks.

In addition, costs for the collecting, preparing and transferring of data would be considerable. This would not result in a convincing cost-benefit ratio.

Q7 – Do you believe that some types of SFPs are more suited to a post-trade transparency regime than others? If so, please identify the specific type(s) of SFPs and explain.

No. On account of the many different forms of SFPs, these are in general unsuitable for a post-trade regime.

Q8 - Should a mandatory post-trade transparency regime be introduced for SFPs, please indicate what kind of information (e.g. price, size) could be reported without impacting liquidity or participation in the SFP market.

We do not consider a mandatory post-trade transparency regime to be useful for the market. If post-trade transparency is really required, data should be published as aggregated prices with volume spreads, and with sufficient delay.

Q9 – What features should a centralized reporting system for SFPs have?

No response.

Q10 – Do you believe that the absence of post-trade transparency in SFPs has contributed to the market turmoil?

No, please refer to our answers to Questions 5 and 6.

Q11 – Do you believe that post-trade transparency in SFPs could contribute to market recovery?

No, since the informative content of post-trade data for SFPs is very limited (refer to Q5 and Q6 above), we consider there could be hardly any contribution in this respect.

Q12 – Do you believe that post-trade transparency requirements should be implemented after other transparency initiatives (such as enhanced information on the quality/performance of the underlying assets, standardization of investor reports, etc)? If so, can you please indicate

which other transparency initiatives should be implemented before post-trade transparency requirements.

It might be worth thinking about harmonising the information in Investor Reports, at least partially. However, it has to be remembered that standardisation is not possible due to the individuality of the products, since standardisation in information would also require a certain level of standardisation of the product. It must be ensured that important information is not lost – and standardisation would endanger this important objective.

However, a more harmonised structure of the form of providing information in Investor Reports could improve clarity, and thus the possibility of comparison for investors.

Q13 – *Do you believe that now is an appropriate time to implement post-trade transparency requirements? If not, please indicate the reason(s) and when you believe that it would be more appropriate.*

In general we do not consider a post-trade regime for SFPs to be useful; please refer to our answers to Questions 5 and 6.

Q14 – *Do you think more requirements for loan level information from issuers and cash flow modeling tools by 3rd party vendors in Europe would help pricing transparency and create more standardisation in valuing SFP?*

Issuers should be provided with as much information as possible in order to ensure that the investor has sufficient opportunity of analysis.

However, we reject a standardisation of cash-flow models. This would hardly be purposeful or useful, not least on account of the many different structures of the SFPs.