

Step-In Risk (SIR)

SIR Implementation Moving Forward....Possibly

Last updated: July 30, 2018

Executive Summary

- **Intent of rule/bigger picture:** Step-in-Risk (SIR) guidance is meant to help supervisors identify potential future instances where a bank sponsor might provide economic support of some sort to an entity that is not consolidated on its balance sheet.
- **What the guidance does and who complies:** As proposed by the Basel Committee on Banking Supervision (BCBS), SIR guidance requires banks that engage in certain activities (including CMBS issuance, branding REITs, money-market mutual funds and others) monitor these activities and provide regulators with regular reports.
- **Impact of the rule:** At this time, the cost of compliance appears to be minimal due to the fact that U.S. CMBS and CRE CLOs do not have the critical identifiers included in the Basel standards. However, the standards allow for broad interpretation and could, in a worst case scenario, be applied liberally.
- **Problems with the rule:** The Basel framework itself already requires monitoring for all types of risks, and many other rules in effect in the U.S. and elsewhere collectively reduce the risk to almost zero. Some, but not all, of the applicable rules are: FAS 166/167, Volcker rule, risk retention rule, etc. This means that the SIR guidance is redundant.

SIR QUICK FACTS

- The BCBS classified SIR as “guidance” instead of standards, giving jurisdictions the option to implement.
- To date, US regulators have not indicated whether they intend to issue a SIR rule.
- No CMBS bonds were reconsolidated onto sponsors’ balance sheets during the crisis for reputational risk or any other reason contemplated within the SIR framework.
- In the U.S., there are several rules that should collectively prevent non-contractual reconsolidation events.

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CREFC Policy & Strategy

CREFC joined two comment letters to the Basel Committee in which we argued that the regulators should reconsider the idea. If the regulators insist on implementing the SIR framework, then the industry groups argued that the reporting requirements should be minimal and the regulators should write the indicators narrowly, so that SIR could not be over-identified.

Based on the fact that SIR has been prevented by several existing rules in the US, CREFC argues that the regulatory agencies should not pursue SIR rulemaking.

Standards: <https://www.bis.org/bcbs/publ/d423.pdf>

For further Information, visit CREFC's Resource Center at: <https://www.crefc.org/library>

Additional Background & History

- **Central Concept:** During the Great Recession, some banks on-boarded certain types of structured products, including structured investment vehicles (SIVs). The banks had no obligation to support the economic obligations of the trusts that owned the SIV assets, yet they decided to do so largely for reputational reasons. The SIVs had purchased a large proportion of long-term senior debt issued in the form of trust preferred securities (TruPs). If that debt defaulted, rating agencies might have in some situations lowered banks' long term debt ratings, which could have destabilized the already weakening banking industry.
- **Problems with the Basel Standards:** The BCBS viewed the SIV incidents as a sign that the regulatory framework might not fully prevent non-contractual support for sponsored transactions. The SIR consultations were drafted to generally cover such incidents. However, as CREFC and other industry stakeholders pointed out in letters to regulators, most jurisdictions have implemented post-crisis reforms that collectively preclude the chance of such an event without proper accompanying capital and liquidity charges. The risk management pillar in the Basel framework alone requires monitoring for such events.

CREFC Resources

- [*Joint Associations Letter to the Basel Committee on the Second Consultation of Step-in-Risk, 08.15.2016*](#)
- [*Industry Letter to the Basel Committee on the Second Consultation of Step-in-Risk, 03.17.2016*](#)
- [*Joint Associations Letter to the Basel Committee on Treatment of Securitization, 08.12.2014*](#)
- [*Submission to Joint International Panel Requesting Information on Treatment of Securitization, 07.25.2014*](#)

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