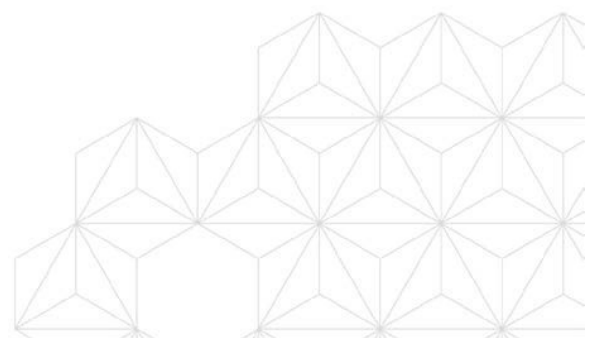


**PRIME
COLLATERALISED
SECURITIES**

**INTERPRETATIONS
USER GUIDE BOOK**

27 July 2016 - version 8



PCS INTERPRETATIONS

USER GUIDE BOOK

PART 1: List of Interpretations

The following are the current list of interpretations.

Point	Title	Description
1	Eligible currencies	List of Eligible currencies for PCS issuance
2	FX rate	Current exchange rates
3	Eligible Jurisdictions	List of Eligible jurisdictions
4	Responsible Lending Rules and Guidelines	Questions 2 (g) (i), 2 (j) (i) and 2 (l) (i)
5	Specified Dates	Definition
6	Ratings triggers	Question 2 (d) (iii)
7	Definition of default	Question 2 (a) (vi) and 2 (p) (vii)
8	Yes or No questions	Question 1 (a) and other “yes or no” questions
9	Domestic Market guidelines (“DMG”)	Question 1 (d) (vii)
10	Prospectus discloses reps and warranties	Questions 1 (i) (i), 2 (i) (i), 2 (k) (i), 2 (o) (i) and 3 (c) (i)
11	Existing transactions and evidence requirements	General approach to evidence requirements for existing transactions
12	“As far as the Originator is aware”	General approach, questions 1 (h) (xii) and others
13	Filling out the form	General approach
14	Revolving pool	Question 1 (e) (iii)
15	Certain wording in UK master trust documentation	explanation

Point	Title	Description
16	Where verification can be found in the prospectus	Question 1 (h) (iv) and similar questions
17	Questions with an “or” in the question	How to interpret the use of “or” in certain questions
18	Further queries on questions	Queries about how to respond to questions
19	Definition of “Existing Securities”	Definition
20	“Non-cancellable”	Interpretation of the word “non-cancellable” in questions
21	Criteria changes	General approach to jurisdiction specific criteria changes
22	No Embedded Maturity Transformation	Interpretation of question 1 (c)

PART 2: Explanation of Interpretations

Point 1: Please see Appendix 1.

Point 2: Please see Appendix 1.

Point 3: Please see Appendix 2.

Point 4:

General considerations

The determination of which rules come within the definition of “Responsible Lending Rules and Guidance” is to be made by the PCS Secretariat. In reaching this determination, the PCS Secretariat will consult with the Market Committee. Although it will be guided by the views of the Market Committee, these views shall not be binding on the PCS Secretariat.

As a matter of practice, the PCS Secretariat will only consider rules for inclusion in the “Responsible Lending and Guidance” category if requested by a market participant. Nothing should therefore be read in the absence from the current list of any rules applying to any jurisdiction. The PCS Secretariat may simply not have been solicited by any market participant with respect to such rules.

General approach

When considering whether any set of rules and guidance should be included in the category of “Responsible Lending Rules and Guidance” the PCS Secretariat will have regard to a number of factors, including:

- A. Are the rules or guidance mandatory for all lenders?
- B. Is there formal regulation in place from a regulatory body tasked with ensuring compliance with the rules?
- C. Are there penalties or adverse consequences for failure to meet the relevant rules or guidelines?
- D. Do the rules address responsible lending - including requirements to assess whether a borrower will be able to repay, based upon income, interest rate environment, etc - ?
- E. Do the rules contain measures to protect for the consumer - including fairness of treatment, borrower’s rights, clarity of information and fair setting of interest rates, etc?

These are some of the factors that the Secretariat will consider. Each decision will be taken after consideration of all the aspects of the rules deemed relevant and looking at them in context. The presence or absence of any of the above factors will be an important, but not necessarily determinative element of the decision.

Responsible Lending Rules and Guidance

The following have been determined to be “Responsible Lending Rules and Guidance”:

(a) The United Kingdom’s MCOB Rules as set out in the Financial Conduct Authority’s (FCA) Handbook from 2004 onwards.

Point 5:

This definition has now recently been changed. There is now no scope for interpretation on this point. The updated definition reads

“Specified Date means a date, specified in the Prospectus, which (in respect of the Underlying Assets backing the Securities on the Issue Date) falls not more than three calendar months and two weeks prior to the Issue Date or (in respect of any Underlying Assets backing the Securities from a later date) falls not more than three calendar months and two weeks prior to such later date (and for the avoidance of doubt, there may be more than one “Specified Date” in any transaction).”

Point 6:

This question requires certain information where ratings triggers exist or a statement that none exist. In transactions where triggers exist, information is not required on aspects of those transactions where no triggers exist.

Point 7:

“Default” is not a defined term at present and shall, for the purposes of meeting the PCS Label criteria, bear the meaning given to it in the relevant prospectus for each transaction.

Point 8:

The responses are “yes, plus a reference” or “no”. Partial or not applicable responses are not permitted.

Point 9:

At present, DMG only includes the DSA guidelines. The list may expand in the future. The question is a transparency question and only asks whether a transaction intends to comply with DMG or that DMG guidelines do not apply. There is no actual requirement for transactions to be subject to DMG.

Point 10:

For securities to be eligible for the PCS Label, the transaction from which they arise must have a prospectus, which contains the following representations, warranties and undertakings. The checklist sets out the headings, which must appear in the prospectus. If, in addition to headings, the prospectus sets out a more detailed description of the relevant representation, warranty or undertaking (or sets out the actual text of such representation, warranty or undertaking) the Screening Partner will nevertheless only check that the heading corresponds to the heading required by the checklist.

The Rulebook, however, in addition to the headings, also contains standard wording of relevant representations, warranties or undertakings. This standard wording is not mandatory, in the sense that it is possible to obtain a PCS Label even if the exact words of the standard PCS wording do not appear in the actual representations, warranties or undertakings. However, it is a requirement of the Label that actual representations, warranties and undertakings are given in the transaction to the same effect as would be achieved had the representations, warranties or undertakings, as the case may be, had appeared word for word in the form set out in the Eligibility Criteria. This aspect of the criteria is not, however, checked by the Screening Partners through the prospectus but by checking a statement from the originator in the Originator Certificate. In the Originator Certificate, the originator will need to make a statement that the transaction contains representations, warranties and undertakings, which, even if they are not in the exact same words as the standard wording that appears in the PCS Eligibility Criteria, are nevertheless to the same effect.

Point 11:

The Rule Book sets out requirements that information/evidence should be provided; the rulebook is not always precise as to whether the relevant information/evidence should be found in the prospectus or Originator Certificate. The Checklist provides a working requirement in this respect. However, for existing transactions, the PCS Secretariat will be allowed to make an interpretation as to where the requirement for information should be found but only where the Rulebook is not clear. For new transactions, there will be no ability for the PCS Secretariat to make such determination, as the checklist requirement will be final.

Point 12: The response “so far as the Originator is aware” to be included in the answer is permissible for certain questions e.g. 1 (h) (xii). For further information, please speak with the PCS Secretariat.

Point 13

Responses in the Checklist should be in the “prospectus page/ref” column and not in the “Screener Comments” column. In terms of filling out the prospectus page/ref response, the more accurate detail of exactly where the evidence can be found is better to enable a quicker Screening Partner response. The front page should be fully filled in by the Applicant except for the first two questions, which will be filled in by the Screening Partner.

It would also be helpful to provide checklists in MS Word format to allow for easier editing.

Point 14:

A revolving pool in question 1 (e) (iii) only refers to a master trust. A single issuance SPV with substitution should be answered under part (A) of the question.

Point 15: [to be confirmed]

Point 16:

Where information is required to be evidenced in the prospectus, it may be found in different areas. One example is question 1 (h) (iv). The evidence for this question may be found in a statement, representation or warranty or it may be found in the stratification tables. The Checklist response is required to show exactly where the relevant evidence can be found.

Point 17:

There are a number of questions in the full checklist, which include the word “or” in the question. 3 questions are clearly stated as being “either...or” questions. All remaining questions except those noted below should also be treated as “either...or” questions. 3 questions namely:

2 (g) (iii), 2 (j) (iii) and 2 (l) (iii)

are required to be treated that both (or all) parts of the question should be separately and positively responded to i.e. these are not “either...or” questions.

Point 18:

If Applicants have any questions about how to fill in answers to certain questions or are unsure about the required prospectus or Originator Certificate wording please contact the PCS Secretariat at admin@pcsmarket.org or call the PCS Secretariat on 00 44 (0) 203 440 3720.

To avoid Originators abusing the Existing Securities regime by issuing Securities and immediately seeking the Label, the PCS Secretariat interprets Existing Securities as Securities issued at least three calendar months prior to the request of the label.

Point 20:

The expression “non-cancellable” appears in Questions [...].

PCS acknowledges that in all or almost all jurisdictions legal provisions exist that allow contracts to be cancelled notwithstanding the terms agreed between the parties. The doctrines under which contracts may be cancelled include, in various places, “fraud”, “duress”, “unconscionability”, “Acts of God”, “mistake”, “impossibility of performance”, “violation of public policy”, “usury”, “lack of capacity”, “unfairness” and similar concepts. Also, often pursuant to consumer protection legislation, a borrower or purchaser may terminate a contract if the goods purchased or leased are faulty or do not correspond to their description.

The aim of the criteria that require non-cancellability is to ensure that the assets securitised may not, as a general matter, simply cease to exist at the option of the borrower. Therefore, the expression “non-cancellable” does not seek to exclude contracts that may be cancellable as a matter of general law.

To meet the definition of “non-cancellable” the asset must not be cancellable at the option of the borrower (either through a contractual term or through the general law) notwithstanding the absence of any defect in the product or any failure on the part of the provider of the product or some other event that affect the contract. In other words, for an asset to be treated as “cancellable” for the PCS criteria, the borrower must have effectively a free, unfettered option to terminate the contract in such a way as the rights and obligations created by that contract cease to exist – as if the contract had not been entered into.

It follows from this interpretation that the exercise of a pre-payment facility in a loan or lease is not to be treated, for PCS criteria purposes, as a “cancellation”.

Point 21:

It is not uncommon for PCS to be approached by market participants suggesting new criteria or amending existing criteria to reflect the specificities of a given jurisdiction. The PCS label criteria seek to define a very high level of structural quality, simplicity and transparency in securitisations. PCS also acknowledges that different jurisdictions have different legal systems and market practices and that these may well be consistent with the quality described by the PCS Label. At the same time, just because a particular law or market practice exists in a place does not ipso facto make it so consistent. Balancing the acknowledgement that different jurisdictions have different practices with the reality that not all practices are consistent with quality is a task the Board of the PCS Association, advised by the PCS Market Committee, must perform every time a request is made. To assist with this task, the PCS Board has created an analytical framework designed to provide consistency in the process and the intellectual approach.

In order to assist stakeholders who may wish to approach PCS with requests for jurisdiction specific criteria, the Board has chosen to publish a description of this framework. Attention must be drawn, however, to the final paragraph of this paper which stresses that this approach is not dispositive, nor does it limit the Board's discretion to decline to make criteria changes it believes, for whatever reason, are not compatible with the nature of the PCS Label.

The Board strongly recommends that this publication should be used by stakeholders requesting jurisdiction specific criteria changes to frame their arguments.

Analytical framework

When examining a request for jurisdiction specific criteria, the Board of PCS ask a number of questions designed to guide their decision. Criteria change requests for which it is possible to answer in the affirmative ALL OF THE questions have a much stronger likelihood of meeting with the approval of the Board.

(a) General market practice

Is the practice for which a criteria change is requested the general market practice in the relevant jurisdiction?

Practices that are universally used by financial institutions across a market are more likely to be acceptable than those that are reflective of the idiosyncratic lending practices of a small minority of lenders.

(b) Objective underlying reason

To the extent a criteria change reflects a practice that, on its face, is less strong than the current PCS criteria, is there an objective reason external to the lenders' business why this practice prevails.

Practices that are driven by objective reasons rather than by a lender's internal business reasons are more likely to be acceptable. Objective external reasons include things such as legal restrictions of general applicability or tax. Internal reasons include the desire to reduce the lender's costs or increase the lender's market share.

Put differently, if a practice introduces additional risks it must be justified by the fact that lending would be unpractical without these additional risks, not by the fact that lenders have decided that they are prepared to take additional risks for business reasons.

For example, if information provided to investors cannot be provided with the frequency requested because to do so would violate a country's privacy laws that is an objective external reason. If information cannot be provided because lenders have never been willing to shoulder the cost that is an internal reason.

(c) Long standing practice

Is the practice for which a criteria change is requested a long standing practice?

If a practice is new, even if it is driven by an objective external reason – eg a recent change in tax law – it will not be possible to determine whether such change could have

some unforeseen and unintended consequences that would weaken the securitisation's structural integrity in the future. Therefore, a practice that has stood for many years is more likely to be acceptable than a new practice. In this respect, "many years" should be looked at in terms of decades and not a few years.

(d) What impact does this practice have?

Can it be shown that, despite the relevant practice, lending in the relevant jurisdiction and asset class remains prudent when compared to similar lending elsewhere?

Even if a practice is universal in a given jurisdiction, results from a legal requirement and has been in force for decades, it may still be the case that this results in serious material weakness of a securitisation.

Therefore, practices where it is possible to show data that demonstrates that, notwithstanding what could appear to be a weakness, the relevant asset class performs in line with the same asset class in other countries, are more likely to be acceptable. As with (c) above, such data must span a number of years.

To summarise: Can you show that this is a universal practice that has been done for an objective reason over many years and can you demonstrate that it appears to have no adverse effect on the performance of your assets or the strength of the securitisation?

Please note that this analytical framework is there as a guide. It does not follow that any criteria change requested where these questions can be answered in the affirmative will always be approved by the Board. The Board will start with this analysis but may well determine, using its experience, knowledge and reasoning that, notwithstanding the affirmative answers, the requested criteria are not consistent with the PCS Label.

Point 22:

"Rule 1 (c) – No Embedded Maturity Transformation states that:

Each Underlying Asset was underwritten (a) with full recourse to an Obligor that was an individual or a corporate that is not a special purpose entity and (b) on the basis that the repayment necessary to repay the Securities was not intended, in whole or in part, to be substantially reliant on the refinancing or re-sale value of the security for that financial obligation.

The question has been raised as to whether an interest only mortgage – where the borrower only services the loan's interest and is required to repay the whole loan in one instalment at or prior to the maturity date – would be an asset which would be considered to be one where it is intended that the repayment of the loan would be "substantially reliant on the...re-sale value of the security for that financial obligation" i.e the house.

The PCS criterion against embedded maturity transformation was created to prevent transactions where it was clear to everyone that the only realistic way in which the securitisation investors could ever get their principal repayment was through the sale or refinancing of the asset. In these types of transactions, everyone including the

investors, is aware that there is really no meaningful path to repayment save through refinancing or sale.

The types of deals that were meant to be caught were, for example, a commercial real estate transaction where a large commercial property sits in a borrower that is a special purpose vehicle whose sole asset is that property, whose sole revenue source is the income from that property and which has contracted not to enter into other kinds of business save for holding that asset and similar assets on similar terms. In such a case, if the securitised loan has a five-year term and the revenue from the asset mathematically cannot repay such loan in the timeframe, short of some miracle, there is simply no credible way in which the securitisation can be repaid other than by selling the property or refinancing the loan.

Other types of deals caught by the criterion are deals where the asset is a commodity (oil, grain, gold) or a bond whose maturity date falls after the maturity date of the securitisation. These assets can only be monetised through a sale. Again, short of a miracle, there is no credible alternative means to pay the securitisation other than by such a sale.

The point of this criterion is to avoid the securitisation's repayment becoming dependant on a sale or refinancing that may fall, of necessity, during a time of crisis where such sale or refinancing cannot be conducted at a reasonable price or at all. The word "substantially" was added to exclude transactions – especially leasing deals – where a part of the principal may come from the sale of very liquid equipment for a very small item value. The word "substantially" therefore refers to the quantum of the amount to be refinanced. It does not refer to the likelihood of any refinancing or, to put it in other words, to how likely the lender believed that refinancing or re-sale would be the way the loan would be repaid. This is important because it explains why interest only loans are not a prohibited asset under criterion 1 (c).

The reason for this is that interest only mortgage loans are made to individuals (or guaranteed by individuals) rather than to limited recourse special purpose vehicles that have no option to repay but to refinance or sell the house at a specific point in time. Individual borrowers are real persons with multiple sources of funds and a great degree of freedom as to when to sell and the conditions of sale. It is not the case that the only realistic manner in which interest-only mortgages can be repaid is through a refinance of the mortgage or a sale of the property. Some borrowers take these mortgages in the expectation of an inheritance, others of substantial bonuses, some of a sale of their business. In each case, they intend to use these funds to repay all or part of the mortgage. Many intend and have the means to repay principal over the life of the mortgage but want the flexibility to do so when it suits them rather than through a schedule.

Others, it is true, take a 25 year mortgage knowing that it is extremely likely that they will sell the house in the next few years. Although, at first blush, this may look like a situation where the intention is for the loan to be repaid by a sale – and so contradicts the PCS criterion – the reality is that the intended sale does not, as with many CMBS transactions, necessarily fall at the time the securitisation needs to be repaid, thus causing the liquidity risk that the criterion seeks to avoid. The intended sale may fall many years before the actual mortgage maturity. This means that if such sale does not happen, because property prices fall or because the borrower never has the family he or she hoped to start, there are many years for the borrower to convert the interest only mortgage into a repayment mortgage or find another strategy to repay the loan over time. Again, since the borrower is a real person, he

or she has the legal and financial capacity to do so. This is not true of a single purpose vehicle with a commercial asset or a shipment of grain.

Of course, it is possible that some borrowers will wait the full 25 years without a repayment of any kind and be forced to sell the property just before the maturity of the mortgage. This would recreate the problem that the criterion is concerned with. But no lender or borrower expects this to happen in most circumstances. Therefore, it would be incorrect to say that the asset had been underwritten on the basis that it would be subject to embedded maturity transformation.

In consequence, all other things being equal, PCS does not consider that a traditional interest only residential mortgage to an individual is an asset that falls foul of the rule against embedded maturity transformation.”

If Applicants have any questions about how to fill in answers to certain questions or are unsure about the required prospectus or Originator Certificate wording please contact the PCS Secretariat at admin@pcsmarket.org or call the PCS Secretariat on 00 44 (0) 203 440 3720.

APPENDIX 1: Current PCS Exchange rate list

Note: Eligible Currency means (i) a currency of the European Economic Area; (ii) the US dollar; (iii) the Canadian dollar; (iv) the Japanese yen; (v) the Australian dollar; and (vi) the Swiss franc.

Currency	Exchange rate to €
Australian Dollar	1.47
British Pound	0.84
Bulgarian Lev	1.95
Canadian Dollar	1.45
Czech Koruna	27.0
Danish Krone	7.44
Hungarian Forint	314
Icelandic Krona	133
Japanese Yen	116
Latvian Lat	0.68
Lithuanian Litas	3.35
Norwegian Krone	9.44
Polish Zloty	4.38
Romanian New Leu	4.47
Swedish Krona	9.54
Swiss Franc	1.09
US Dollar	1.10

Please request an exchange rate determination if your selected currency is missing from the list above. This table will be updated on a quarterly basis (unless there has been a material change in the interim period under which circumstance the PCS Secretariat reserves the right to amend the PCS exchange rate within that interim period).

APPENDIX 2: List of Eligible jurisdictions

Eligible Jurisdiction means (i) any jurisdiction in the European Economic Area; and (ii) Switzerland.