



August 30, 2011

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorite des marches financiers  
Nova Scotia Securities Commission  
New Brunswick Securities Commission  
Office of the Attorney General, Prince Edward Island  
Securities Commission of Newfoundland and Labrador  
Superintendent of Securities, Government of Yukon'  
Superintendent of Securities, Department of Justice, Government of the Northwest Territories  
Superintendent of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

Attention:

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Ladies and Gentlemen:

American Automotive Leasing Association (“AALA”) submits this letter in response to the request for comment by the Canadian Securities Administrators to the proposed National Instrument 41-103, 51-106, 52-109, 45-106 and 45-102 relating to Securitized Products.

We write in general support of the comments to the CSA by the Canadian Finance and Leasing Association (CFLA). Our members have had the opportunity to provide input to CFLA’s information gathering process in development of its presentation to the CSA. We also want to provide the CSA with insight into vehicle fleet leasing industry and share with the Securities Administrators our concerns over the proposed changes based on our financing experience in Canada as well as the United States.

AALA is comprised of the principal companies engaged in commercial vehicle fleet leasing in the United States which includes slightly more than 3 million vehicles. Many of our members have affiliates in Canada and provide vehicle fleet leasing services to corporations throughout Canada and as part of a comprehensive North American platform. Vehicle fleet lessors in Canada represented over 141,000 of vehicle purchases in Canada in 2010 or almost 9% of the 1.58 million vehicles (1) registered in the same year. In addition, many of these companies' affiliates purchase a significant amount of Canadian manufactured vehicles in the United States market where fleet lessors represent approximately 6.7% of vehicle registrations(2). The fleets we serve range from small companies and municipalities with several vehicles to large corporations and governmental entities with fleets in the thousands of vehicles.

Our lessee clients come to us to source best in class vehicle logistics management, to access the efficiency of our buying power and to obtain constant driver and service coverage throughout North America. On behalf of our clients, we execute millions of transactions annually by managing their vehicle needs: maintenance, repair, collisions, violations, fuelling, and ultimately disposal and replacement. In some cases, the lessors' service or managed fleet revenues are multiples of their lease related revenues. Our clients do not typically view us as an alternative form of finance, and our business model does not anticipate financial loss in our portfolio under any circumstance.

Our members and their Canadian affiliates are active user of the financial markets, financing in the bank and institutional venues as well as users of the securitization markets. Our members view securitization as an efficient source of finance, not as a primary mechanism to transfer risk away from ourselves as the originator and servicer of the leases. Vehicle fleet leasing is not an "originate to distribute" industry. In stark contrast, the nature of our relationship with our institutional clients typically involves the ongoing supply of services resulting in our taking on with our client for many years significant working capital risk exposure (e.g. service and fuel receivables) in addition to our vehicle leases. A corporate relationship of over 10 years and through many vehicle cycles is typical of this industry.

Consequently, vehicle fleet leasing securitizations have had an unimpeachable history of clean and non-volatile performance in Canadian as well as other financial markets. We view securitized financing as a significant, but only one pillar of our financing. Securitization must be compatible with and appropriately priced (as expressed in spread cost, collateral coverage, and administrative burden) to our alternative sources of funding.

1. AALA encourages the CSA to work up front and in tandem with the other financial regulatory bodies in Canada, especially OSFI, to ensure harmonization of both definitions and rules as they relate to both the issuers and investors in securitized debt. A uniform and consistent approach from the principal regulators of issuers, market operations and investors (regulated depositories, insurance companies, fund managers as well as non-regulated entities and persons) will provide confidence and stability to the asset backed market users. We are especially concerned that gaps among regulators develop in descriptions of securitized assets, information supplied by issuer to different types of investors and differing standards of risk retention that inhibit efficient access to different parts of the Canadian financial market.

2. We note the CSA is proposing no “grandfathering or transition period”. Typical financings in this sector have a 36-48 month final maturity and an average life of approximately 18 – 20 months. Without some form of grandfathering or transitional protection, the risk of a costly and premature restructure to bring a financing into conformity with new rules is likely to have a market chilling effect and lead to avoidance of this source of financing until the regulations have been firmly set.
3. Our members firmly believe they have retained risk in their financings as they do in their business transactions. However, risk retention defined through a rigid formula is non-productive. Our transaction structures have ample overcollateralization and retained subordination to cement our interests to the success of the financing. As CFLA has stated in their position, a disclosure of the form of agreed risk retention in a transaction is constructive. Within the disclosure, we would urge the CSA to consider the following:
  - a. Allow for multiple forms of risk retention: Horizontal Residual Interest, Horizontal Cash Reserves, Sellers’ Interest, Representative Sample as well as Vertical Cross Sections should be accepted alone or on a combined basis as valid forms of risk retention.
  - b. Avoid mandates relative to cash flows such as excess cash flow recaptures since different asset classes have unique cash flow characteristics. Excess cash flow retention during the life of a transaction has, as a principal impact, the increase of credit enhancement when a financing is seasoned, diminishing in size and becoming more expensive to the issuer.
  - c. Ensure regulators in Canada are consistent in their requirements of investors across investor classes (viz. regulated depositories/banks and insurance companies).
  - d. In describing “Risk Retention”, we suggest the CSA carefully consider the precise definition of “unhedged” exposure and that the prohibition be carefully worded to restrict hedging to the transaction structure itself. As part of general and prudent credit management, some lessors (who may be the sponsors of a securitizer) require letters of credit and other forms of indemnity to cover all of their cash exposure, including service fees and other receipts from the lessees. The timing will generally be independent of a financing transaction. However, in a crisis and in the absence of clarity, some investors and perhaps regulators may view these protections as transaction risk hedges by a related party.
4. Use of Agency Ratings: The impeccable quality of fleet securitization results in part from the underlying quality of lessees. Lessees deriving maximum efficiency from the commercial fleet vehicle industry’s services are typically large institutional users with large scale operations spread across North America and often internationally. Many of these lessees have publicly available credit ratings which together with an assessment of the underlying vehicle collateral and the quality of the securitizer provide investors with the necessary insight to make a well considered credit decision. Our investors view their ability to map the risk distribution of our lessees to objective ratings as constructive. We encourage the CSA to maintain the ability to reference our client ratings in any information disclosure where necessary.

The American Automotive Leasing Association is grateful for the opportunity to express its views on the proposed changes to securitized transactions in Canada. If you require further clarification or would like to discuss our views further, please feel free to contact me.

Sincerely,

***Daniel Z. Frank***

Daniel Z. Frank  
Vice President  
Government Affairs

- (1) Canadian Automotive Fleet Fact Book 2011, Statistics Canada – Catalogue no. 63-007-X
- (2) “Automotive Fleet” 2010 Statistics