



***Finalising the European framework on Securitisation:
where do we stand now? (achievements & next steps)***

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Objectives:

Building block of the Capital Markets Union

Promote an active and sound securitisation market & rebuild the trust

Timeline:

Entered into force on 1 January 2018, application date 1 January 2019

Securitisation Regulation

Entities :

Cross-sectoral (all different types of entities)

Content:

General requirements for securitisation: transparency, due diligence, risk retention, third party certifiers, sanctions, prohibition of re-securitisation, credit granting, etc

Applicable to all securitisations

Framework for 'STS' securitisation: Criteria for simplicity, standardisation, and transparency

Applicable to traditional securitisation and short-term (ABCP) securitisation

Synthetic securitisation is outside of the scope - currently favourable treatment for senior positions in SME securitisation only

Amendments to CRR

Entities:

Credit institutions and investment firms

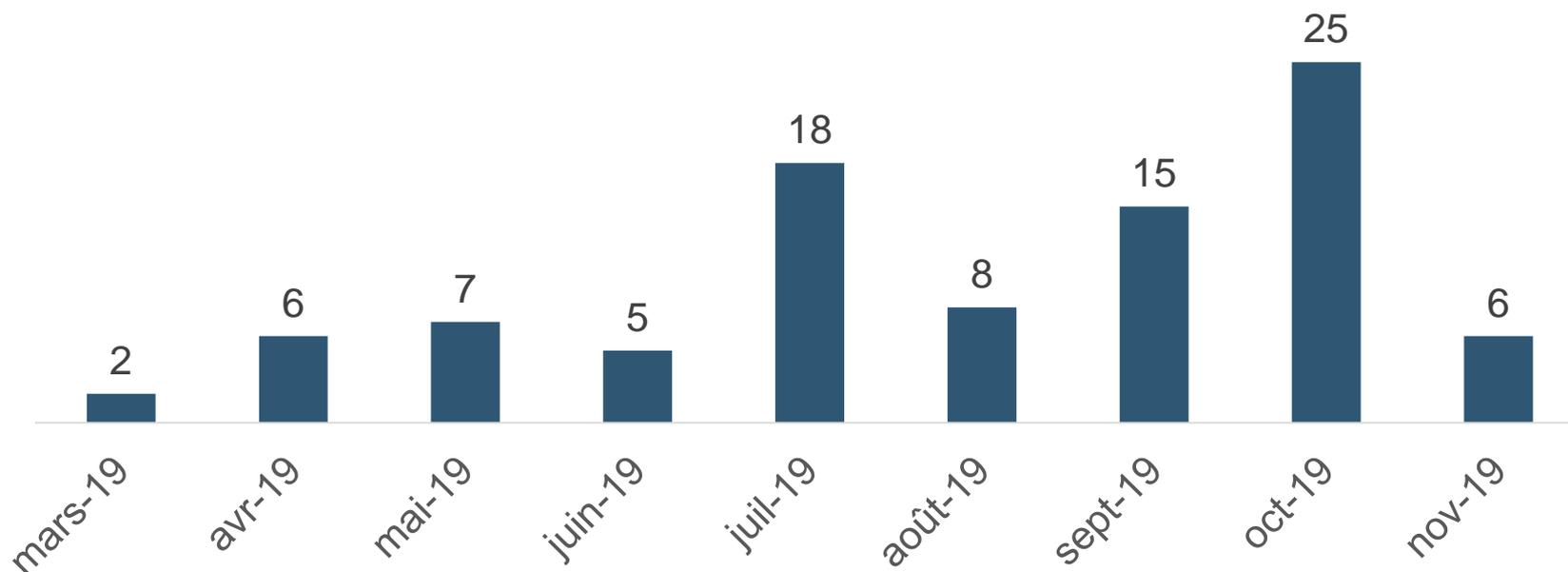
Content:

Capital treatment of non-STS and STS securitisation

New hierarchy of approaches for calculation of capital (SEC-IRBA, SEC-SA, SEC-ERBA)

STS transaction and trends (as per 25 Nov 2019)

Number of notified STS transactions per month

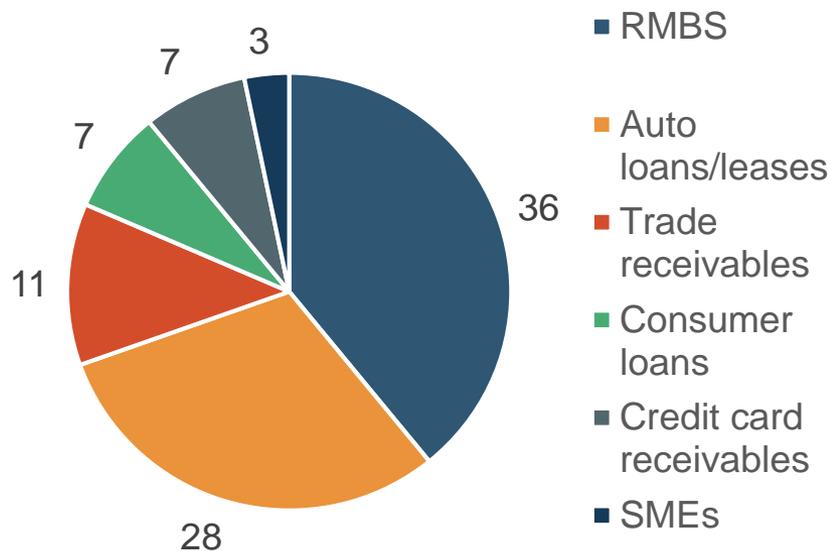


Source: ESMA website

- **92** STS transaction notified to ESMA
 - started with private ABCP transaction on 22 March 2019
- 79 traditional securitisations, 13 ABCP transactions, no ABCP programme
- 15 private transactions, 77 public transactions
- All public transactions have used third party verifier

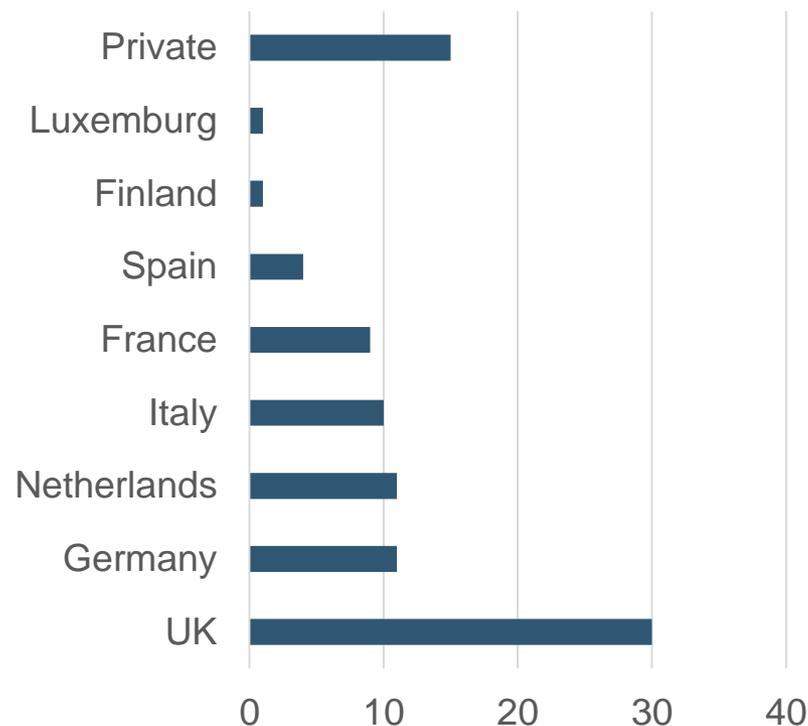
STS transaction and trends (as per 25 Nov 2019)– cont.

Underlying asset



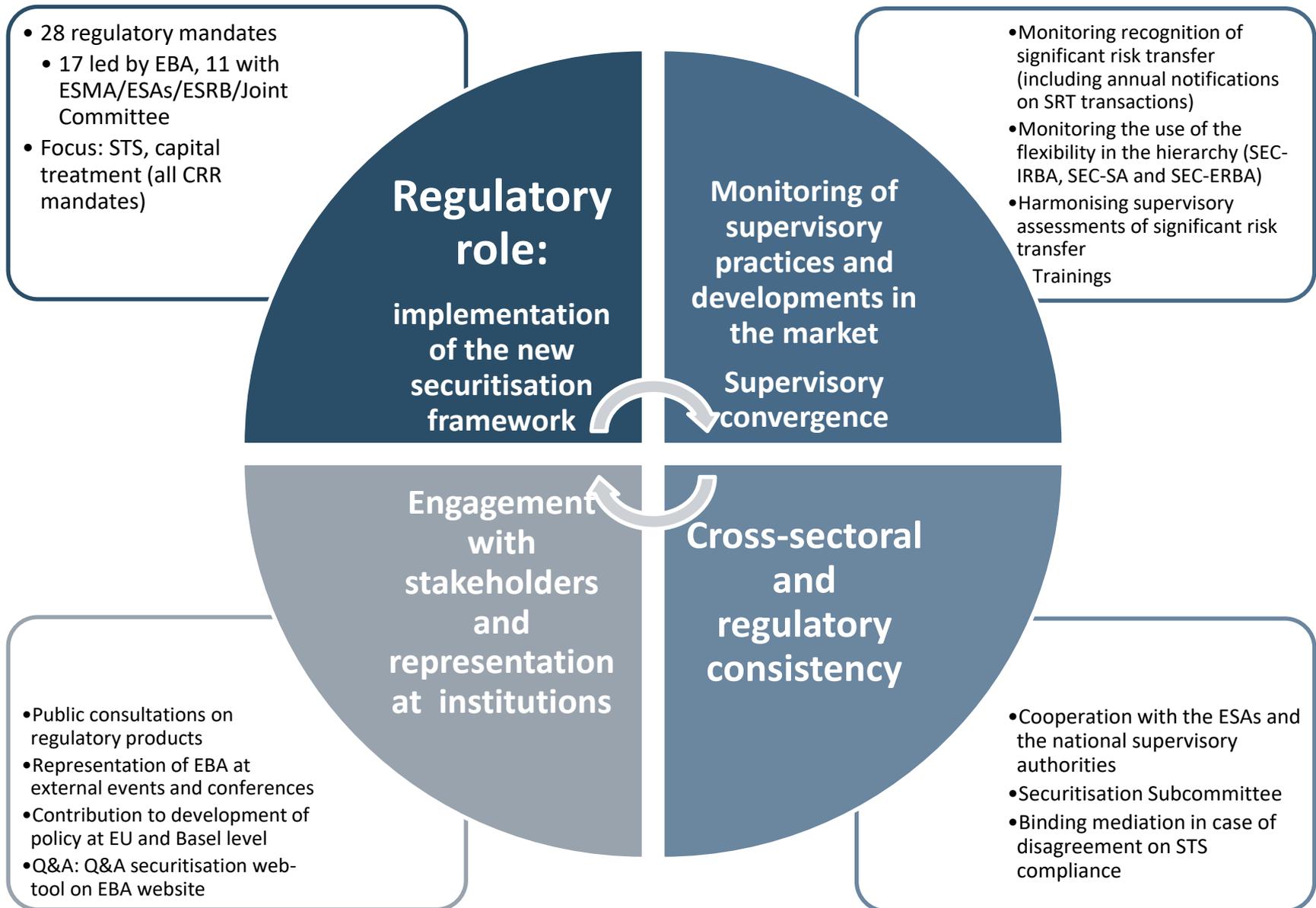
Source: ESMA website

Originator country



- Mainly RMBS and Auto transactions, significant use of Master-trusts
- UK most active country followed by Germany, Netherlands, Italy and France

Main EBA role in the securitisation framework



EBA regulatory work: Main tasks completed



RTS on homogeneity

- Set of 4 criteria for homogeneous pools, as part of STS criteria: underwriting + servicing + asset categories + homogeneity factors
- Published by EBA in July 2018, published in the OJ in November 2019

RTS on risk retention

- Replacement of existing RTS, amended scope, cross-sectoral nature, modalities and amount (5%) remain unchanged
- Published by EBA in July 2018, to be adopted by COM

Guidelines on STS criteria

- Interpretation of all STS criteria, for non-ABCP and ABCP
- Published in December 2018, applicable from 15 May 2019

RTS on PuRa

- Conditions to facilitate investors' use of SEC-IRBA (to calculate KIRB with purchased receivables approach)
- Published in April 2019, to be adopted by COM

Opinion on NPL Securitisation

- Changes to level 1 regulation on capital requirements, risk retention and credit granting criteria
- Published in October 2019

ITS on supervisory reporting on securitisation

- Changes to securitisation COREP templates with the aim at aligning with the new securitisation framework
- Published in May 2019, to be adopted by COM, expected implementation date March 2020

A. Consistent interpretation of STS criteria

B. Harmonisation of supervisory assessment of the significant risk transfer

C. Development of STS framework for synthetic securitisation

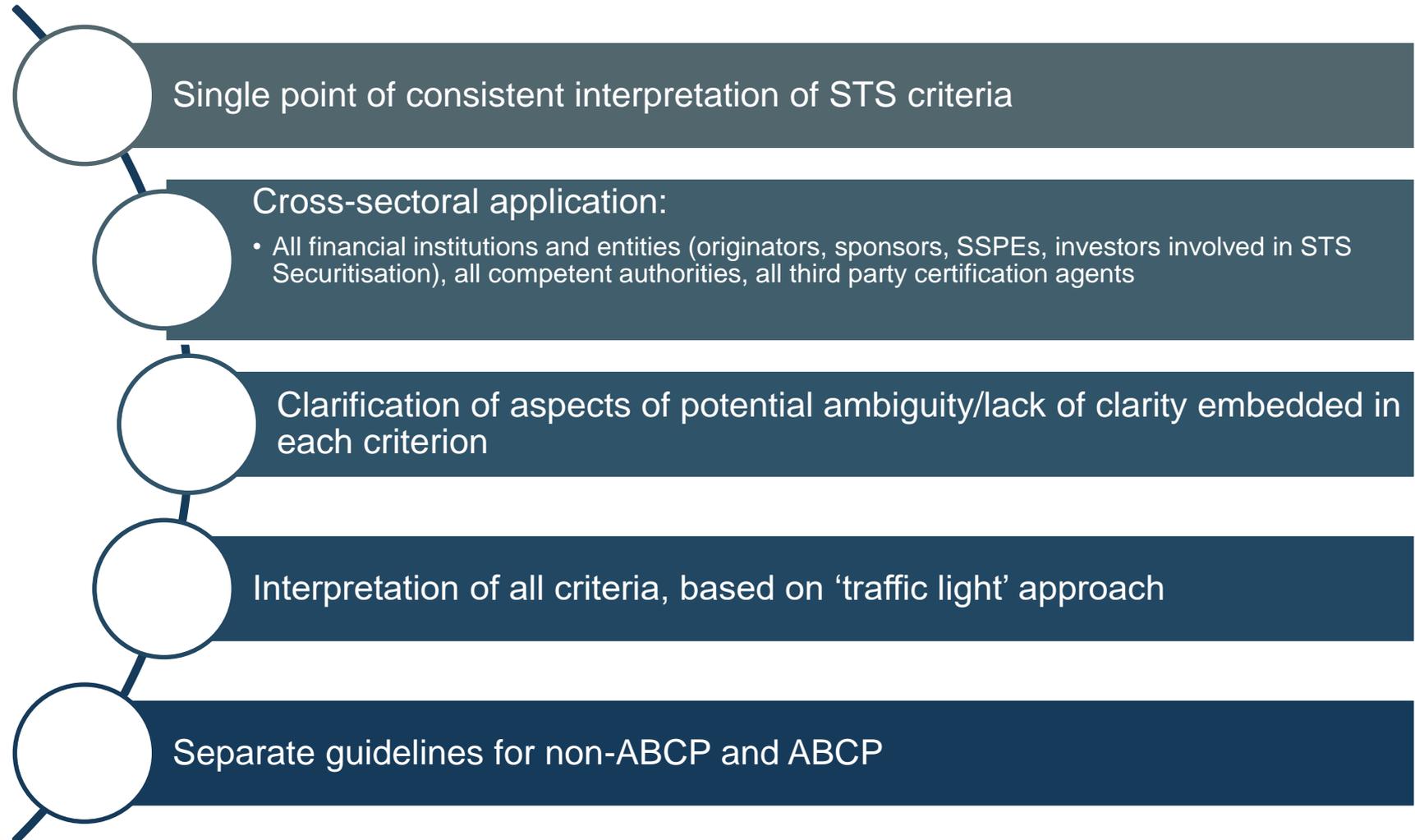
D. Enabling better use of internal models by banks investing in securitisation

E. Recalibration of capital requirements for NPL securitisation

F. Cross sectoral consistency, clarification of scope of application

A. Consistent interpretation of STS criteria:

Guidelines on interpretation of STS criteria



A. Consistent interpretation of STS criteria:

Guidelines on interpretation of STS criteria (Cont).

Red criteria
cannot be interpreted without additional guidance

- **Originator's expertise in originating exposures of a similar nature** (Art. 20.10)
- **No exposures in default and to credit impaired debtor/guarantor** (Art. 20.11)
- **No predominant dependence on the sale of assets** (Art. 20.13)
- **Expertise of the servicer in servicing exposures of a similar nature** (Art. 21.8)

Yellow criteria
containing a substantial element of uncertainty or ambiguity

- **True sale, assignment or transfer with the same legal effect** (Art. 20.1, 20.2, 20.3, 20.4, 20.5)
- **Eligibility criteria for the underlying exposures/active portfolio management** (Art. 20.7)
- **Obligations of the underlying exposures** (Art. 20.8)
- **Underwriting standards** (Art. 20.10)
- **Appropriate mitigation of interest-rate and currency risks** (Art. 21.2)
- **Resolution of conflicts between investors** (Art. 21.10)
- **Environmental performance of assets** (Art. 22.4)

Green criteria
generally self-explanatory or fairly straightforward but may include a certain element of ambiguity

- **Representations and warranties** (Art. 20.6)
- **Homogeneity, periodic payment streams, no transferable securities** (Art. 20.8)
- **No resecuritisation** (Art. 20.9)
- **At least one payment made** (Art. 20.12)
- **Risk retention** (Art. 21.1)
- **Referenced interest payments** (Art. 21.3)
- **Following enforcement, acceleration** (Art. 21.4)
- **Non-sequential priority of payments** (Art. 21.5)
- **Early amortisation provisions/triggers for termination of revolving period** (Art. 21.6)
- **Transaction documentation** (Art. 21.7)
- **Remedies and actions related to delinquency and default of debtor** (Art. 21.9)
- **Data on historical default and loss performance** (Art. 22.1)
- **Verification of a sample of underlying exposures** (Art. 22.2)
- **Liability cash flow model** (Art. 22.3)
- **Compliance with the transparency requirements** (Art. 22.5)

A. Consistent interpretation of STS criteria: RTS on homogeneity of exposures (Cont).

Exposures falling within the same **asset type**

Exposures **underwritten** in accordance with standards that apply similar approaches for assessing associated credit risk

Exposures **serviced** in accordance with similar procedures for monitoring, collecting and administering cash receivables on the asset side of the SSPE

One or more **homogeneity factors** are applied

Mapping asset types / homogeneity factors

	Type of obligor	Ranking of security on collateral	Type of immovable property	Jurisdiction of property/ obligor
Residential loans	X	✓	✓	✓
Commercial loans secured with mortgages	X	✓	✓	✓
Credit facilities to individuals for personal, family or household consumption purposes	X	X	X	X
Credit facilities to enterprises (incl. SMEs) and corporations	✓	X	X	✓
Auto loans and leases	✓	X	X	✓
Credit card receivables	✓	X	X	✓
Trade receivables	X	X	X	X
Other asset type	✓	✓	✓	✓

B. Harmonisation of supervisory assessment of the significant risk transfer

Heterogeneity of supervisory practices on recognition of SRT

Partially reflecting limitations/lack of regulatory treatment

Possibly leading to weakened capital positions, increased regulatory uncertainty and impairment of level playing field

Goal to enhance and harmonise regulatory and supervisory treatment

Harmonisation of the process of SRT assessment
(deadlines and templates for SRT notification by originator to CA, and supervisory feedback)

Harmonisation of complex structural features
(excess spread, pro-rata amortisation, call options, early termination events, cost of credit protection, etc)

Harmonisation of quantitative SRT tests
(including assessment of 'commensurateness' of risk transfer)

C. Development of STS framework for synthetic securitisation

Mandate

- **Securitisation Regulation** requires the EBA – in close cooperation with ESMA and EIOPA - to develop a report on balance sheet synthetic securitisation, that should **assess the feasibility of the STS framework for balance sheet securitisation** and determine the STS criteria

Content

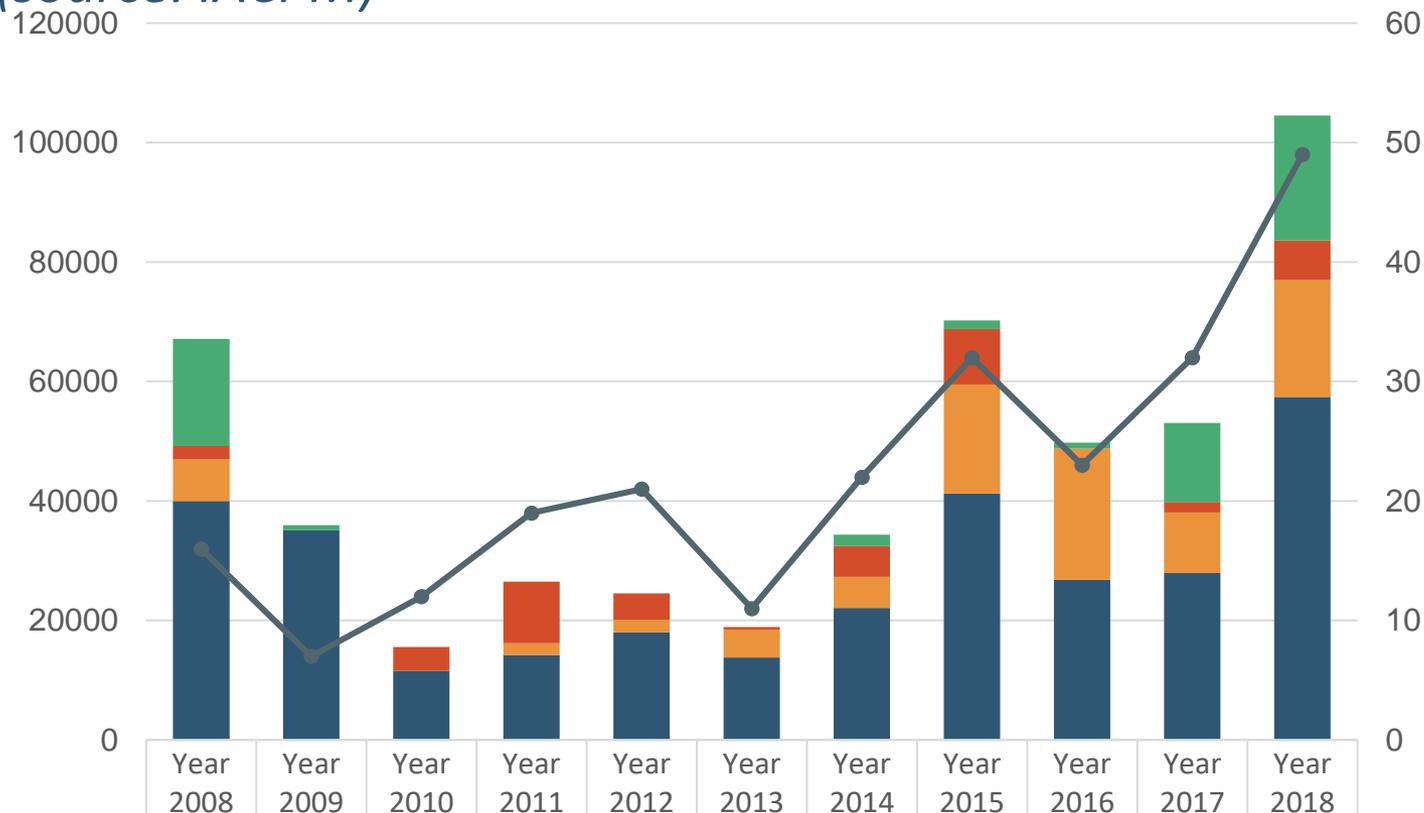
- **Analysis of market developments and trends**
- **Rationale (business case)**
- **Criteria for STS synthetic securitisation**
- **Analysis of possible differentiated regulatory treatment**
- **Recommendations**

Timeline

- **Discussion Paper published on 25 September 2019**
- **Now assessing responses to public consultation that ended 25 November 2019**
- **Final EBA report expected by end Q2 2020**
- **Based on the EBA report, the Commission may develop a legislative proposal within 6 months**

Market overview:

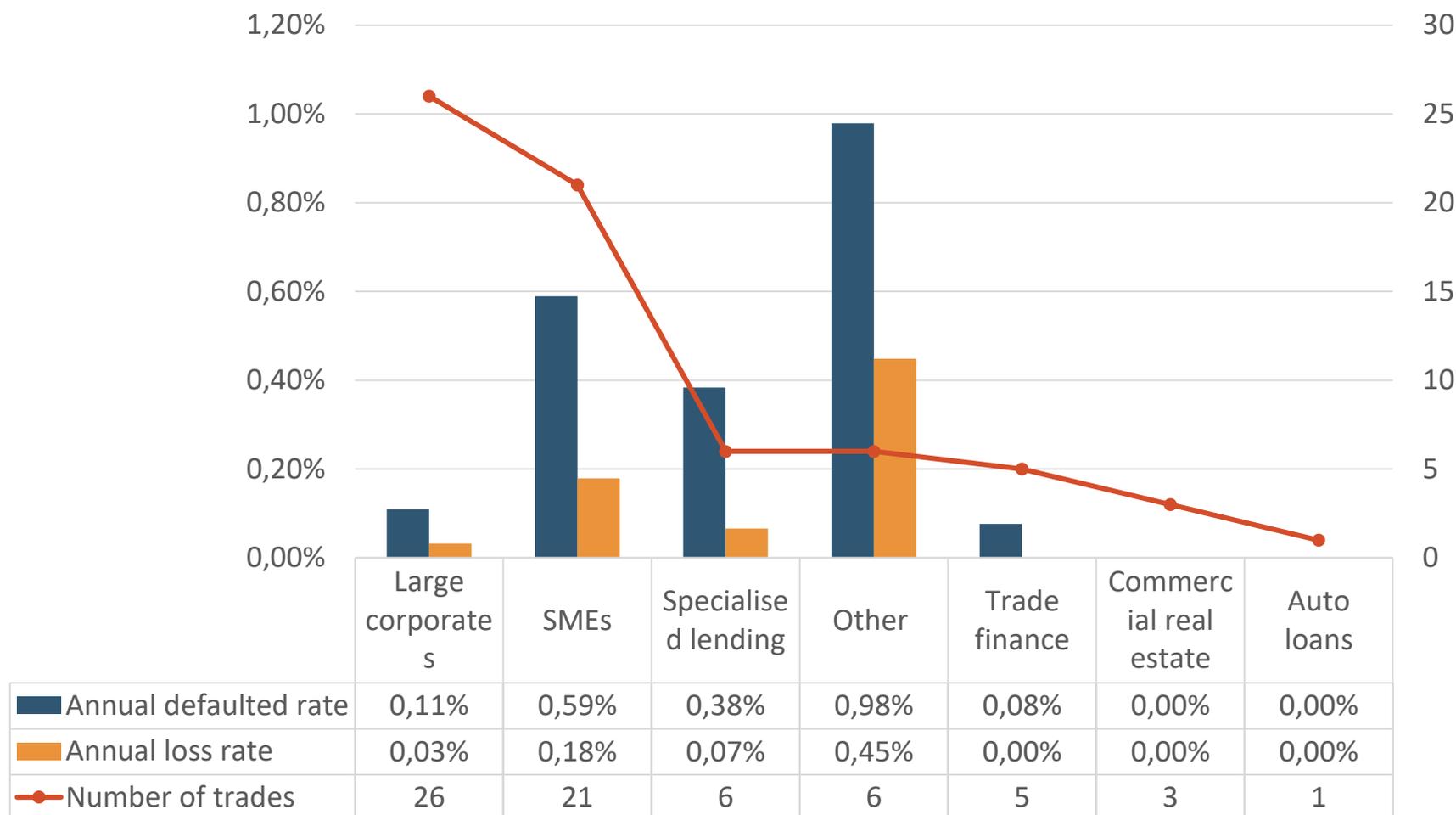
Asset classes, volume in balance sheet securitisation in EUR million (source: IACPM)



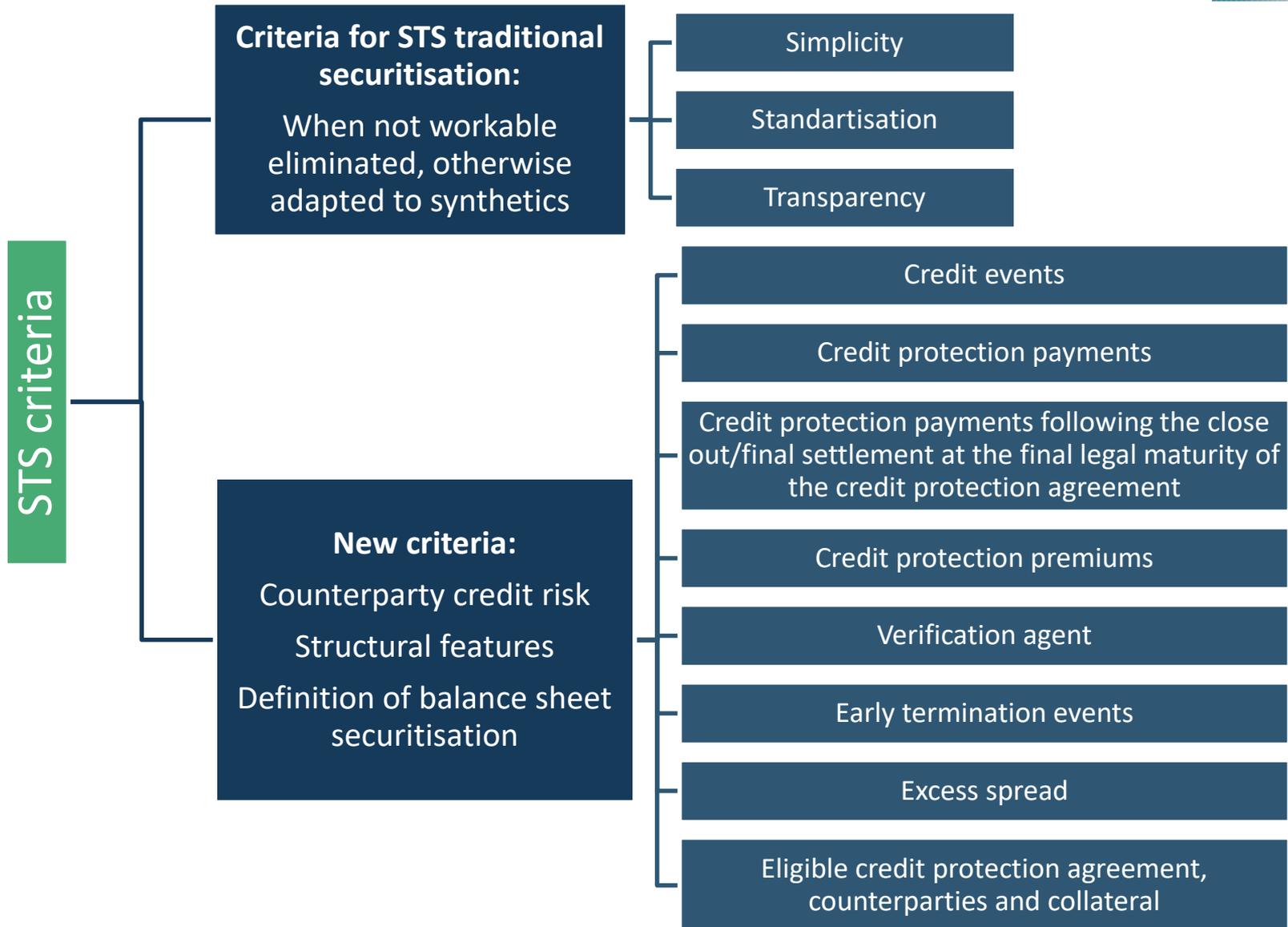
Other (RMBS, CMBS, etc)	17945	850	0	0	0	0	1876	1423	1000	13247	20902
Trade finance	2213	0	3983	10354	4412	443	5219	9289	0	1770	6639
SMEs	6988	0	0	2000	2123	4650	5170	18219	21932	10142	19580
Large corporates	40009	35123	11557	14173	17978	13831	22108	41276	26824	27926	57408
Number of trades	16	7	12	19	21	11	22	32	23	32	49

Performance overview:

Cumulative observed defaulted amount + loss amount at 31.12.2018 on the securitized portfolio divided by Trade size at inception and divided number of years elapsed (source: IACPM)



STS criteria



Framework for a differentiated regulatory treatment of STS synthetic securitisation

- ❑ **No recommendations** in the EBA Discussion Paper
- ❑ Instead:
 - ❑ question seeking stakeholders' input about the possibility of its introduction, potential impact, level playing field and other considerations
 - ❑ analysis of arguments in favour/against the preferential capital treatment

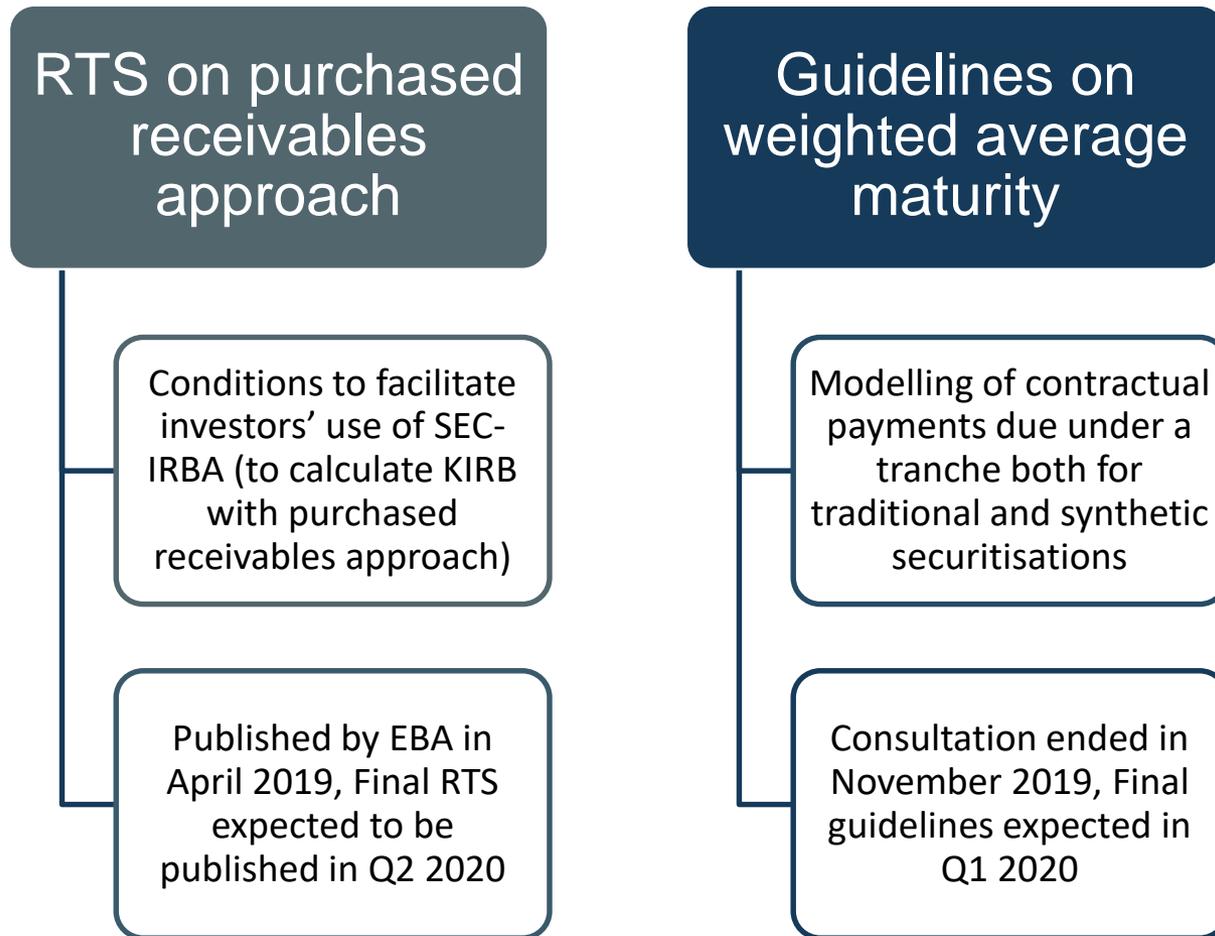
Supporting arguments

- Technical feasibility of the creation of STS synthetic securitisation product
- Solid rationale (business case) for the STS synthetic product
- Market characteristics, trends and developments
- Good performance of the synthetic securitisation post crisis
- Level playing field/consistency with STS traditional framework
- Overcoming constraints of current limited STS risk weight treatment of SME synthetics
- Fuelling the positive impact of the (STS) synthetic securitisation on the financial markets and stability

Arguments against

- Non-compliance with Basel
- Limitations of data (e.g. not reflective of the full economic cycle)
- Very limited experience with the STS traditional framework so far

D. Enabling better use of internal models by banks investing in securitisation



E. Recalibration of capital requirements for NPL securitisation

Publicly acknowledged at global and EU level that the capital requirements for NPL securitisations have been mis-calibrated

EBA opinion published end October 2019

- Examines the role of securitisations for NPL disposal
- EBA's view on certain constraints in the EU law securitisation framework that prevent or hinder that role
- Recommendations to the European Commission for change of Level 1: CRR and Securitisation Regulation

Q&A on Art. 9(3) of Securitisation Regulation on credit granting criteria

EBA participation in the discussions at both EU and international level

F. Cross sectoral consistency, clarification of scope of application

Securitisation Subcommittee

OBJECTIVE:

To ensure **cross-sectoral consistency**

- To assess **practical issues** which may arise with the implementation of STS securitisation in the EU

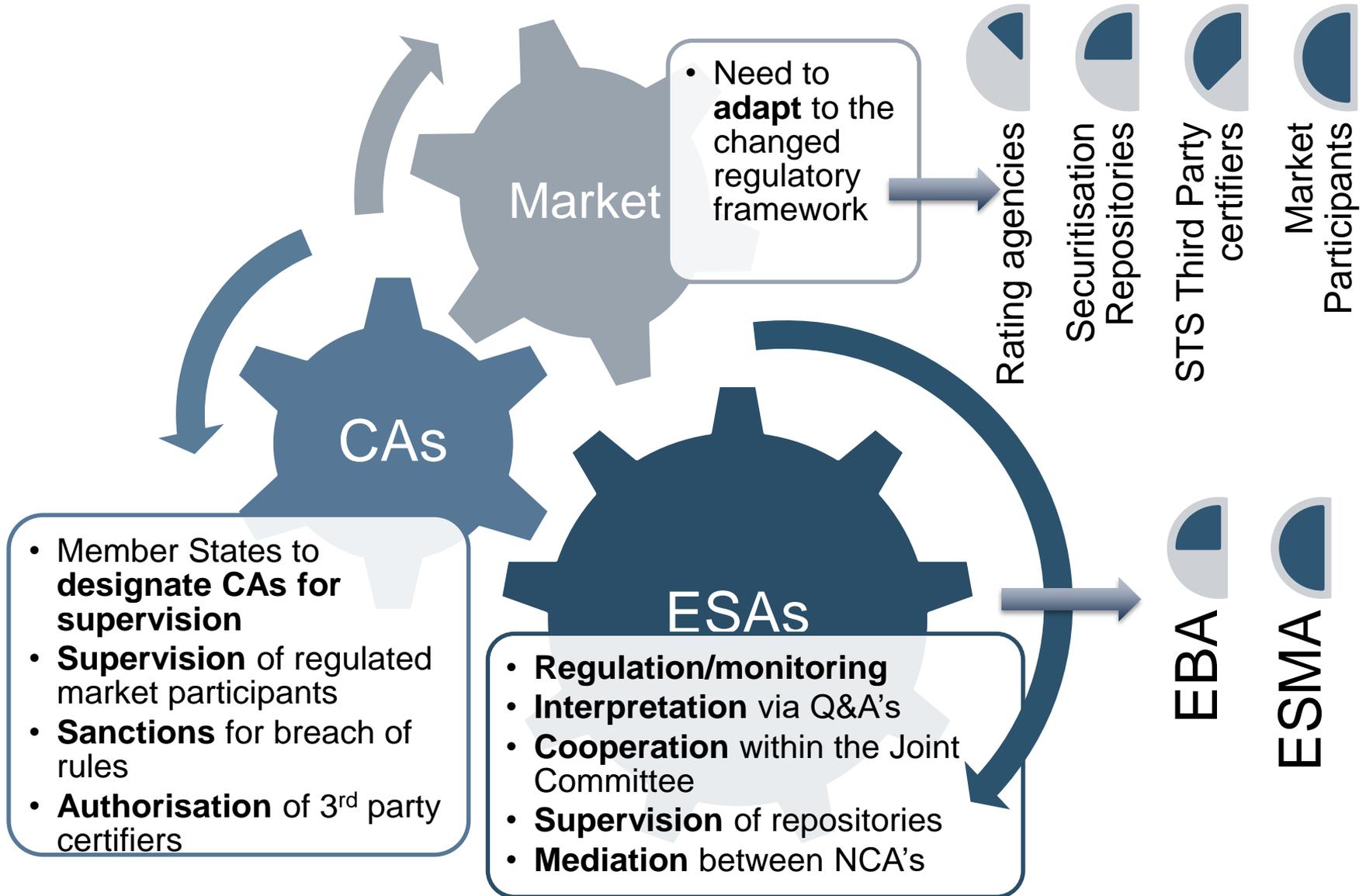
• ORGANISATIONAL ASPECTS:

- Composed of ESAs and NSAs, COM and ECB
- Established as of **January 2019**
- 3 meetings in 2019

WORK:

- **Cross-sectoral reports:**
 - 2 comprehensive reports on the functioning of the new securitisation framework and securitisation contribution to funding real economy
- **Open cross-sectoral issues:**
 - Clarification of scope of application with respect to third countries
 - Due diligence of EU institutional investor
 - Interpretation of STS criteria
- **Binding mediation:**
 - In case of disagreement on STS-compliance between the competent authorities, executed by ESMA/Joint-Committee

Application of the new EU securitisation framework



Thank you for your attention.



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