Mapping of securitisation specific problems during the financial crisis and European Union regulatory reform*

**The issue**

- Overreliance on credit rating agencies
- Misaligned interests between originators and investors
- Lack of price information in stressed secondary market conditions
- Misalignment of risk capital with credit risk
- Quality of certain products

**High Level Solution**

- Information for comprehensive assessment of the ABS
- Originators providing disclosure to investors and ongoing reports
- Standardisation of disclosure
- Investors must demonstrate a comprehensive understanding of the risks of any ABS they invest in
- Ongoing monitoring of risk
- Investors to check that the originator is retaining risk
- Investors to check the risk profile of the originator
- Conditions for use and issuer pays
- Originator incentivised to hold a percentage of the risk
- Pre and post trade transparency for venue and OTC trades

**Solution through regulation**

- Example: [1] Credit quality and performance of the individual underlying asset
- Originators directly and indirectly obligated to provide detailed information to investors to meet their due diligence requirements
- Loan-level disclosure and standardised monthly investor reporting
- Investors must gather sufficient information to demonstrate they have a comprehensive understanding of the risk profile of their securitisation positions (e.g. structural features of the securitisation, reputational loss experience of the originator, risk characteristics of the underlying asset)
- Monitor performance information on exposures
- Regular stress tests on exposures
- Investor needs to check if the originator has retained risk prior to investing
- Investor to receive confirmation at least on an annual basis
- Prior to investment investor must check origination criteria are sound
- Confirm effective systems to manage asset administration
- Adequate diversification of originator portfolios
- Ensure originator has a written policy on credit risk
- Conditions for use: requirement to use (i) two rating agencies; (ii) mandatory notation for resecuritisation; (iii) firms may only use CRAs if all of a number of conditions are satisfied
- Originator needs to retain risk in order to sell to European investor on an ongoing basis
- Disclosure of price, volume and time of transactions for all trades
- Review of capital charges for securitisations based on risk assessments
- New capital regime for complex structures (i.e. resecuritisations)

**Detailed requirements**

- Article 8b CRA
- Art 409 CRR
- ECB (not regulation)
- Art 406 CRR
- Art 206 CRR
- Art 406 CRR
- Art 15 AIFMD
- CRA
- Art 405 CRR
- MIFID II
- CRD III
- Mortgage Credit Directive
- Art 408 CRR
- Basel RWA
- Consumer Credit Directive

**Regulations**

- Art 409 CRR
- Article 8b CRA
- Bank of England (not regulation)
- Solvency II (not regulation)
- AIFMD (not regulation)
- PRIPS (not regulation)
- Art 125 Solvency II
- Art 125 Solvency II
- Art 17 AIFMD
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- Art 125 Solvency II
- Art 266/269 CRR
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- Art 17 AIFMD
- PCS liquidity criteria (not regulation)
- Solvency II
- Art 408 CRR
- CRR/CRD IV
- PCS/TSI (not regulation)

*US has introduced similar regulatory initiatives for securitisation, primarily under Dodd-Frank